

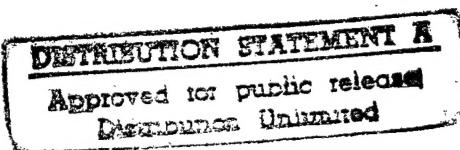
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# **JPRS Report**



# **China**

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## CHINA

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## 'NEW POLITICAL THOUGHT' IN FOREIGN POLICY

Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 24, 16 Dec 86 pp 10-11

[Article by Huang Tingwei [7806 1656 3555]: "A More Expansive, Relaxed, and Pragmatic Soviet World Outlook"]

[Text] On various occasions since he came into power, notably the 27th Congress of the Communist Party of the Soviet Union [CPSU], Mikhail Gorbachev has stressed time and again the need to examine certain theoretical points and concepts with a fresh eye and discard the old way of doing things in order to adjust to the "vast profound changes" in the world today. In setting forth the Soviet foreign policy, he has stated clearly, "Nuclear confrontation requires us to adopt new attitudes toward the relations between different social systems, different nations, and different regions, and deal with them with new methods in new forms." A number of people, including Anatoly Dobrynin, secretary of the Central Committee of the CPSU, have successively written articles in the press elaborating in detail Gorbachev's "new political thought," even going so far as to suggest that diplomacy is not a forbidden zone beyond criticism and that people should not shrink from shattering obsolete ideas. The substance of the "new political thought" of the Soviet Union is outlined below:

1. Relations between national security and international security. In the past, the Soviet Union tended to stress the maintenance of Soviet security and equal security with the United States. Now it is saying that "as far as Soviet-U.S. relations are concerned, security is mutual and as far as international relations are concerned, security is universal." "The most sensible attitude is this: one must not be concerned about the interests of one's own country alone, let alone damage the interests of other nations. Instead one must make all nations feel equally secure." We "cannot protect our security without considering the security of other nations and other peoples." It must be recognized that "the world is made up of over 100 countries, each of which has its own entirely legitimate security interests." Therefore "national security and international security are inseparable." (Excerpts from Dobrynin's article.) As for means of maintaining security, he suggests that "no nation can expect to protect itself with military means alone." "Only through political means can security problems be solved."

2. War and the arms race. For many years in the past, the Soviet war view was to "fight all wars," that is, "conventional wars" as well as "nuclear wars." Today, the Soviet leaders are suggesting that the old notion that "war is a means of achieving political ends has become outdated" in the nuclear age. "No longer is it possible for anybody to win a nuclear war." "The modern world cannot survive a war." Hence the need to "break with the philosophy and mode of conduct, centuries in the making, that permit wars and armed conflicts." Moreover, whoever hopes to achieve military superiority in the arms race not only "will not do anybody any good, objectively speaking," but will also in effect be committing suicide. The level of nuclear parity at the moment is not too low, but too high, a situation which creates "equal danger," instead of "equal security." Therefore, the level of military confrontation must be sharply lowered to maintain "a kind of minimal strategic balance."

3. The confrontation and unity of the two systems. The Soviet Union used to harp on the conflict between capitalism and socialism. Today, however, it argues that world unity is "increasing steadily." The world is becoming "more and more interdependent, more and more a single entity." All the powers are working hard to look for areas where they share "compatible interests" with one another. "The confrontation between capitalism and socialism can take place only through peaceful races and peaceful competition." The norm in international relations should not be confrontation, but "peaceful coexistence between different systems." There is "no alternative to cooperation and coordination among nations in international relations." A basic characteristic of the "new political thought" is this kind of "unity" and "interdependency."

4. Bipolarity and multi-polarity. The Soviet Union has traditionally embraced a bipolar view of the world. Today, even as it upholds "bipolarity," it acknowledges the existence of "multiple power centers" in the world. In other words, it recognizes that "the world is multipolar" and that the "importance of nations besides the United States and the Soviet Union should be taken into account in international affairs." No longer is it possible to "rely on the power of one or a handful of nations to solve problems affecting all mankind and the whole world." There is "much more to the modern world than the United States." "In world politics, one cannot confine oneself to the relationship with just one country, no matter how powerful the latter may be." Practice proves that "to do so is to encourage a psychological dependency on power." (Pu li ma ke fu) of the Soviet Academy of Sciences puts it in no uncertain terms, "One cannot look at world issues from the perspective of the Soviet-U.S. struggle only." "Many regional conflicts in the world cannot be viewed through the lenses of Soviet-U.S. rivalry."

5. Relations among socialist nations and the diversification of the international communist movement. The Soviet Union has historically made much of international communism and demanded that it follow "common principles." Lately, however, it has said more than once that interrelations throughout the socialist world must be handled carefully and that "sincere open relations must be cultivated." It calls for frequent "exchanges of opinions and socialist construction experience" and "mutual respect for and adoption of one another's experience." "Socialist nations must learn to solve problems that arise in their lives," including "conflicts of interests between them," and

search for "mutually acceptable solutions to even the most complex issues." The Soviet Union has begun to recognize the "diversification" of the international communist movement and suggests that it is "impossible for communist parties in all nations to see eye to eye on all matters." Even if they do, this does not mean that some parties can "interfere in the affairs of other parties," or that "one party has a monopoly on truth."

6. The revolutionary situation of the international proletariat and the road it should take. The Soviet Union, which previously invariably emphasized that the capitalist world was in a deepening crisis, now claims that in its present stage, the overall crisis will "not lead to the absolute stagnation of capitalism" or "recession." Instead, the capitalist economy will still expand, science and technology will still make progress, and capitalism can still "hold onto its economic, military, and political turf," and may even "recover some lost ground in some ways."

Concerning the road to revolution, the Soviet Union has traditionally urged all peoples to take up armed struggle. Now it says, "The nuclear age requires revolutionary forces to be extremely cautious when deciding to engage in armed struggle. As a rule, the various manifestations of left extremism should be abandoned." Communist parties in capitalist nations must first consider taking the peaceful road to socialist revolution, without giving up class struggle.

7. A nonideological foreign policy. During U.S.-Soviet detente in the 1970's, the Soviet Union asserted repeatedly that in no way would detente get in the way of "political change" within a nation. Nevertheless, it now says that one must not try to "promote such and such change in another nation from the outside" and "declares its opposition to the ideologizing of foreign policy." "International relations should not become the arena where the destiny of international capitalism and communism is decided." No socialist nation "should aim to overthrow capitalism in another country." It would be "fruitless and impermissible for anyone to push revolution from the outside, particularly where this is done through military means."

8. Principle and flexibility. The Soviet Union set great store by principles and paid scant attention to flexibility in the past. More recently, it stresses "strategic flexibility while upholding principles and keeping to one's stands," noting that one must be "ready to make mutually acceptable compromises." The goal should be "dialogue and mutual understanding, not confrontation." Upholding principles should not mean making "ultimatum-like" demands or inviting confrontation. Rather, it means "defusing a conflict and breaking a deadlock through dialogue, contacts, arguments, and talks."

How the Soviet Union implements its "new political thought" remains to be seen.

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INITIAL STAGE OF SOCIALISM IN CHINA COULD LAST 100 YEARS

HK080530 Beijing QUANGMING RIBAO in Chinese 25 May 87 p 3

[Article by Rui Yuan (5360 3293): "Confirming the Essential Definition of the Initial Stage of Socialism"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, Comrade Deng Xiaoping has profoundly expounded in China's national conditions on many occasions to guide us to scientifically analyze our present stage of social development. In March 1979, at a party theoretical work conference, he explicitly pointed out that "in the past when we were carrying on the democratic revolution, to suit the actual conditions in China we took the road of encircling the cities from the countryside initiated by Comrade Mao Zedong. In our current construction we should also adapt ourselves to China's conditions to pursue Chinese modernization." In January 1980, in a speech entitled "The Current Situation and Tasks" he also said that "we should always remember that since China is vast and has a large population and a weak foundation, only by waging arduous struggles can we catch up with the advanced countries." In light of Comrade Deng Xiaoping's scientific expositions, at the 6th Plenary Session of the 11th CPC Central Committee called in June 1981, the CPC Central Committee pointed out for the first time that "our socialist society is currently at the primary development stage." In September 1982, the report of the 12th CPC Congress formally pointed out that "at present, our socialist society is still in the primary development stage." In September 1986, the 6th Plenary Session of the 12th CPC Central Committee reemphasized that "China is still in the initial stage of socialism." Moreover, it explicitly explained the main characteristics of this stage in the areas of the economy, politics, ideology, morality, culture, etc. expounded on the principles to be observed at this initial stage, and enacted the more realistic principles and policies. This demonstrates that our party has had a more comprehensive and profound understanding of this stage of socialism. This is an important achievement in our party's restudy of socialism since the 3d Plenary Session of the 11th CPC Central Committee, a scientific summary of the experiences and lessons of the International communist movement over the years, and a sublimation of understanding.

The initial stage of socialism is a considerably long stage of development. While receiving Zimbabwe's Prime Minister Mugabe, Comrade Deng Xiaoping said that until the end of this century, we will still be a stage fighting poverty. In 1980 our per capita GNP was only about \$250. At present, it is estimated

to be over \$400, still lagging behind 100 countries in the world. When we reach the level of comparative prosperity by the end of this century, our per capita GNP will only reach \$800 to \$1,000. By then we will by laying a better foundation for the realization of the second objective. Thirty to 50 years from now the Chinese people can lead a middle-class life." In light of Comrade Deng Xiaoping's expositions, we can reach this understanding: the initial stage of socialism can be divided roughly into three smaller stages. The first small stage began in 1956 when China entered into socialism; it will last until the end of this century. Since it is a stage for casting off poverty, we have to lay a better foundation in every field and bridge the gaps among regions. The second small stage will be the first 30 to 50 years of the 21st century. Since it will be a stage of comparative prosperity, the per capita GNP will gradually increase on the basis of \$800 per capita GNP. The third small stage will occur around the middle of the 21st century. During this stage the people will be leading a middle-class life, per capita GNP will be at the present level of the advanced countries and China will become a powerful modernized socialist country. The completion of these small stages will take about 100 years and will mark the end of the initial stage of socialism in China and the beginning of the developed stage of socialism. On this basis, we will continue to advance to greatly promote the ideological consciousness of the people, popularize higher education, develop science and technology to an advanced level, and create a labor productivity much higher than the advanced capitalist countries. Only by then can we discuss the transition to the advanced stage of communism. This of course is only an assumption based on the present situation. The division of the development stages of socialism should also be determined in light of actual conditions at the time. Nevertheless, there should be no misunderstanding that the initial stage of socialism is a considerably long historical process.

By stressing that China is in the initial stage of socialism and by pointing out that this stage is a considerably long historical process, we want to proceed from Chinese specific national conditions to work out the realistic lines, principles, and policies, to urge the people to carry forward the revolutionary spirit of changing China's poor and backward conditions and, we also want to always remain cool headed and to act according to our actual national strength. Therefore, we can set the construction pace on a scientific basis and ensure the smooth and healthy development of socialist modernization in China. Nevertheless, some people have drawn another conclusion. They propose to "make up the missed lessons of capitalism" and even go so far as to play the old tune of "total Westernization" and cast off the orientation of socialism,. We must reiterate that the initial stage of socialism we are talking about is a developmental stage of socialist society. Notwithstanding that this stage differs from the higher stages of socialism in terms of tasks and methods, they all have a common nature and belong to one system of socialism rather than the primary stages of any other society.

Since China is still in the initial stage of socialism, within a considerably long historical period we have to develop various economic elements, including the individual economy, on the premise of focusing on the system of public ownership, and encourage some people to prosper first under the objective of common prosperity. However, an extremely small number of people have become

muddle-headed with this change, thinking that the coexistence of various economic elements is equal to the neo-democratic economy that immediately followed liberation. Therefore, they have begun to doubt the results of the socialist transformation. Some people maintain that since we did not resolutely implement the principle of proceeding for China's national conditions at that time, during the process of transforming the economy other than in public ownership, the success of the policies, measures, and forms concealed the failure of a more fundamental issue, such as correctly assessing history. This is a misunderstanding. History has proved that China's socialist transformation was not a result of the subjective will of an individual but the necessary outcome of the development of productive forces at that time and the inevitable outcome of history. As the contents, methods, and all the specific policies of China's socialist transformation were correct to have integrated Marxism with the reality of the Chinese socialist revolution, they were successful and proved to be the necessary steps with which to enter into socialism. Of course, these policies also contained mistakes and errors. Just as the resolution of the 6th Plenary Session of the 11th CPC Central Committee pointed out, "following the summer of 1955, since the requirements for the cooperative transformation of agriculture and the transformation of handicraft and individually-run industry and commerce were too impetuous, the work style was too crude, the changes were made too fast, and the forms adopted were also too simplistic and standardized, some problems have been left for a long period of time." However, generally speaking, it was still "a great historical victory." carrying out the reform at present, we allowed the coexistence of various economies only to supplement the economy of public ownership. Moreover, since this is conducted under the guidance of the economy of socialist public ownership which has already occupied a dominant position in the national economy, it is quite different from the capitalist economy and individual economy which existed during the early 1950's. The purpose of encouraging some people to get rich first is common prosperity, and this is not tantamount to landlords and capitalists getting rich through exploitation which results in polarization.

We started from a very low point in building socialism and suffered from "leftist" mistakes in the past, so the socialist system is not yet very perfect and there are still many malpractices in the political, economic, educational, scientific and technological structures, and in other fields. Therefore, the central authorities have adopted the principle of reform, opening up to the outside world, and invigorating the domestic economy and stressed to "resolutely make up our minds and spare no efforts to learn the science and technology of all countries in the world including the advanced capitalist countries as well as the generally applicable economic and administrative management experiences and other useful cultures." We do this because we want to better carry out socialist modernization construction and forge ahead. Those people who believe that China lags behind the capitalist countries in its economy, science, education, and even politics and who advocate "total Westernization" are entirely wrong. Following the founding of New China, despite our mistakes, our achievements have still attracted the attention of the world. It has been proved in practice that under the leadership of the Communist Party of China, the Chinese people can fully

display the advantages of the socialist system and have the ability to build a powerful modernized country and catch up with and surpass the advanced capitalist countries. If people do not see the issue in this way and believe that we still need the missed lessons of capitalism and total Westernization, they will not advance but retake the old road and can only retrogress into the old society in which the vast numbers of laborers were exploited and oppressed. This is not in keeping with the fundamental interests of the Chinese people.

Comprehensively understanding the initial stage of socialism is our key to correctly understanding and mastering the line, principles, and policies since the 3d Plenary Session of the 11th CPC Central Committee and preventing and avoiding "leftist" and rightist mistakes. If we do not clearly understand that China has entered into the era of socialism and this essential definition of the initial stage of socialism but talk about this stage without mentioning socialism and the reform, opening up to the outside world, and invigorating the domestic economy without mentioning support for the four cardinal principles, we will lose our bearings and run counter to the fundamental aim of reform, opening up to outside world, and invigorating the domestic economy. If we do not clearly understand that China is still in the initial stage of socialism and talk about socialism without mentioning this stage, we will lack a strong desire to change our poor and backward conditions and therefore will not dare to boldly carry on the reform, open up to the outside world, and invigorate the domestic economy and prepare conditions in China for the transition from the initial stage to the advanced stage. As a result, we will return to the old road of closing the country to international intercourse, and the four cardinal principles cannot possibly be upheld and developed in practice. Therefore, we should organically integrate upholding the four cardinal principles with upholding the reform, opening up to the outside world, and invigorating the domestic economy. Only by doing this can we adapt ourselves to the objective requirements of the initial stages of socialism in China and succeed in building socialism with Chinese characteristics.

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CSO: 4005/786

## REFORM OF COMMERCIAL MANAGEMENT SYSTEM URGED

Beijing JINGJIXUE ZHOUBAO in Chinese 15 Feb 87 p 6

[Article by Zhao Erlie [6392 1422 3525], Economic Research Institute, Ministry of Commerce: "The Old Commercial Management System Must Be Completely and Thoroughly Reformed"]

[Text] 1. The old commercial management system had its roots in the supply system of the war years and came into being during the period of recovery of the national economy and during the socialist transformation of private capitalist industry and commerce. It was further developed and finally perfected on the basis of the traditional theory of planned economy. Its fundamental characteristics are: no separation of government administration from enterprise management, multilevel structuring, no administrative interrelationship between the different units, and direct government control of commerce and enterprises. The basic function of the original commercial management system was to maintain the old commodity circulation system which had allocation as its core pattern. When a shortage of supplies prevailed over long periods of time, this old management system played a positive historical role, but in the wake of subsequent economic developments, the system began to gradually show inadequacies.

2. There is a sharp contradiction between the deficiencies of the old commercial management system and today's vigorous development of a socialist commodity economy. The system, therefore, has to be totally and thoroughly reformed. The contradiction shows up mainly in the following four directions:

First, contradiction between management without separation of government administration from enterprise management and autonomous business operations of enterprises. Commerce without separation of government administration from enterprise management manifests itself in three ways: 1) the organ in charge of administration of commerce will itself directly control commercial operations; 2) some commercial enterprises will wield certain administrative powers at the same time as they conduct business operations; 3) commercial enterprises are mere accessories of administrative departments. This not only creates structural and operational confusion between the administrative departments in charge of commerce and the commercial enterprises--each unable to do its specific job and to assume its specific responsibilities--but will also make it impossible to have commercial enterprises compete with each other

in the market on an equal footing. Even more important, commercial enterprises will lose motivation for business operations, will feel no pressures, and will lack vitality. They will lose the impulse and capability for self-reform and self-development, and as a consequence also lose their functions and status as independent business operators dealing in commodities. However, principal in all commodity circulation is the independent business operator, whose existence presupposes the existence of the independent commodity trader. Without an independent commodity trader, there can be no commodity circulation in the true sense of the word.

Second, the contradiction between a multilevel administrative management and the need for quick and efficient commercial activities. The market is at the core of all commercial activity; trading on the market is full of constant changes, and large sums can be won or lost in the twinkling of an eye. The life of commercial enterprises has, therefore, always depended on accurate, quick, and efficient policy decisions and actions, but it is not only that China's commercial enterprises themselves lack decisionmaking powers in business operations, but that their superior administrative departments, which should make the decisions for them, consist of a system of many levels. For instance, in the big cities, there are at the top the deputy mayor in charge of commerce, the finance and trade commission (or finance office), and the municipal bureau of commerce, and lower down the deputy district chief in charge, the district finance office, the district bureau of commerce, and then there are also municipal companies, district companies, basic-level stores, and frequently also as additional similar parallel structure of many levels and many administrative departments in each structure. If an enterprise reports changes of market demand to higher ups through this long system of administrative levels, is even lucky enough not to meet with arguments and obstructions (which occur regularly), and waits till the final decision filters down again to the enterprise, its original market report will have become stale and of no more interest. Not only that, the enterprise will be left at a loss what to do because its superior administrative departments: 1) will be far away from the front line of market events, which makes wrong decisions unavoidable; 2) will all want to take a share in the action, a situation which the enterprise, being in a so much weaker position, will find difficult to cope with; 3) will increase restrictions and taboos at each level so that the enterprise will find it difficult to make a move; 4) will engage in mutual wrangling and shifting of responsibilities so that the enterprise will be at a loss as to what course to pursue.

Third, contradiction between decentralized administration and establishing a unified domestic market. Formation of a unified domestic market is the natural consequence of the developing commodity economy and the essential precondition for a more advanced commodity economy. Establishing a unified domestic market requires not only removing regional blockades but also abolishing the vertical divisions between different units, to enable all types of commercial enterprises to freely trade in the market according to unified "rules," engage in competition with each other on an equal footing, and develop in a well coordinated way. For this purpose we must establish for our social commercial activities a unified policy, unified rules and regulations, and unified administration, otherwise we will not be able to have a socialist unified domestic market. However, the old commercial management system for

enterprises was moving precisely in the opposite direction. For instance, in the central administration, the Ministry of Commerce was responsible for administering that part of state-run and collective-run commerce in its charge and the grain and supply and marketing cooperative trade (but not grain and cooperative trade below the provincial level). Other trade, such as in tobacco, textiles, clothes, aquatic products, coal for public use, petroleum, silk, table salt, medicines, medicinal materials, industry-run trade, agriculture-run trade, other commerce operated by various trades and departments, as well as individual trade, all this trade was administered by various different departments on the same level but separate. As to the circulation of materials, this had always been even more definitely moved out of the sphere of commerce. Each of these various departments in charge is actually exercising the role of an independent administrative department controlling commerce, each doing its own thing, without any coordination of work between them. This not only causes separation between the different trades and indiscriminate developments within commerce, but also confusion in market control. Moreover, the separation of the administrative departments in charge of commerce from industrial, commercial, and commodity price departments, which are most closely linked with commercial activities in the market, makes it impossible to eliminate the confusion in market control and to be successful in efforts to form a unified market.

Fourth, the contradiction between direct control of enterprises by government and getting the market mechanism to work. If commodity circulation can rely on a perfect and flexible market mechanism, the actions of commercial enterprises will be positive and freely selected reflections of the market mechanism effect. However, in the old commercial management system the main administrative methods were issuing direct mandatory plans and norms and using direct administrative intervention to carry out a highly centralized administrative system for the unified control of income and expenditure, unified allotment of commodities, unified pricing standards, unified pay categories, etc., replacing direct enterprise management by indirect macroeconomic control, using administrative power to stimulate, instead of leaving it to the working of market mechanism, using selection by government administrative departments, instead of free selection by enterprises. As a consequence it was impossible to institute a commodity economy with market mechanism, and it was even more out of the question to regulate enterprise actions and promote commodity circulation.

3. In the commercial reforms of the last few years such measures as delegating authority down to enterprises, abolishing administrative-type companies, expanding autonomy of enterprises in their business operations, reforming the planning system, freeing certain types of plan goods and commodity prices, and promoting lateral economic relations have to a certain extent resolved contradictions between the old commercial management system and the commodity economy and provided a certain relaxation. However, the contradictions have not at all been resolved fundamentally, and new contradictions have appeared with the advent of new situations, the main ones being: 1) Delegation of authority by the central authorities and province-run enterprises down to city governments, and the transfer of control of certain trades to other departments means nothing else but getting another "mother-in-law," without any radical change in the position of the

enterprises as accessories of administrative departments, in some cases, on the contrary, with even stricter controls. The policy of expanding autonomy of enterprises cannot be realized because the authority is restricted by the incompatibility of other reforms and retention of powers by several levels of administrative departments. Generally speaking, therefore, state-run commercial enterprises and the considerable number of collective-run enterprises are still far from becoming independent commodity traders. 2) The separation of each unit's financial responsibilities and broadening the powers of local governments has added to the financial and market responsibilities of the local governments, but under the present conditions when a new order has not yet been established and there has been no radical change in the state of commodity shortages, it is unavoidable that local separation and blockading of markets have been aggravated, that for local commodities it became the rule "if there is much, none is let in; if there is shortage, none is let out." Everywhere barriers and checkpoints are going up, so that the market which had formerly been split by vertical divisions is now being more severely split by horizontal divisions. 3) The development of economically multistructured commerce and of a great variety of circulation channels, has brought vigor and vitality to the market, but also plurality in the composition of commodity traders and greater complexity of market transaction. However, the commercial management system has not undergone corresponding change, and this fact has brought about a vacuum and much administrative confusion, as it also manifested a serious lack of adaptability. Examples are: due to the incomplete state of laws and regulations for commerce, law violations appear to be serious; since there is no unified policy, competition on an equal footing between enterprises is impossible; since there is no unified planning, the various trades cannot develop in a harmonious way; since statistics are incomplete and since there are no sensitive sources of information, macroeconomic control is ineffective; since in some sectors there is no separation of government administration from enterprise management, the powers of enterprises are small, and they show little vitality; since training and education lag behind, the contingent of staff and workers in enterprises is of low quality, etc, etc. The entire market lacks unified organization and leadership, lacks planned training, and its development is left to a kind of indiscriminate spontaneity.

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CSO: 4006/483

## BAN YUE TAN ON STABILITY OF POLICIES

HK200716 Beijing BAN YUE TAN in Chinese No 10, 25 May 87 pp 4-6

[Article by Xue Zhongxin (5641 0022 2450): "Why Our Policies Will Remain Unchanged"]

[Text] We often heard in street gossip and causal chats people discussing whether the party policies will be changed. They worry about whether a "stop" will be put to opening up to the world with the criticism of "total westernization"? Will the private economy, joint-ventures, the lease system, and the contracted-responsibility system be continued over a long period of time now that the adherence to the socialist road is stressed? Will the policy of letting some people get rich ahead of others continue to be effective now that common prosperity is propagated? Will the policy of giving play to the role of the intellectuals remain unchanged now that Fang Lizhi, Wang Ruowang, and Liu Binyan have been criticized and their cases handled? In short, all these remarks have reflected people's worries that the opposition to bourgeois liberalization would impede the implementation of the principle of reform, opening up, and invigorating the domestic economy.

In fact, those worries are unnecessary. The CPC Central Committee has reaffirmed on many occasions that our policies will remain unchanged. Why so?

First, this is determined by China's national conditions. At present, China is still in the primary stage of socialism; the level of its productive forces is still comparatively low, its commodity economy is underdeveloped, its science, technology and culture are backward. Therefore, the development of social productive forces has become the basic task for China at the present phase. It is precisely because of this that China needs not only ownership by the whole people economy, which is the dominant force in the national economy, and collective ownership economy as well, which accounts for a considerable proportion in the national economy, but also an appropriate degree of private economy as a supplement to the socialist economy. Only then will it be possible to give play to the initiative of every aspect, to fully develop social productive forces, and to meet the needs of various aspects. In the public ownership sector, the separation of ownership from managerial power, the adoption of such forms as the lease system and management-related system of contracted responsibility in enterprises are all for better invigorating enterprises, improving economic results, and promoting the development of

productive forces. Therefore, these policies drawn up in accordance with the characteristics of the primary phase of socialism, namely China's basic national conditions are by no means makeshift measures. They have been written in the constitution, and must be adhered to over a long period of time.

And second, through the test of practice, our policies are proved to be fine. We have pursued the policy of reform, opening up, and invigorating the domestic economy for 8 years now. China's gross industrial and agricultural output value increased to 1,510.4 billion yuan in 1986 from 617.5 billion yuan in 1979. The people's living standards have been markedly raised; in 1986, the average per capita income for living expenditures in the urban areas was 828 yuan, and the average per capita net income of the peasants was 424 yuan. The past 8 years have been one of the best times since the founding of the PRC. Anyone who respects facts will not deny that these accomplishments are resulted from the earnest implementation of the party line, principles, and policies since the 3d Plenary Session of the 11th CPC Central Committee. All trades and professions have developed vigorously, the people have received substantial benefits, and our national strength has been greatly reinforced. All these facts have shown that the principle of reform, opening up, and invigorating the domestic economy conforms to the law governing economic development as well as the wishes of the 1 billion people. If this is a fine policy supported by the people and proved by practice, why should we want to change it?

The principle of reform, opening up, and invigorating the domestic economy will not be changed as a whole, but this does not mean that every specific policy will remain unchanged; such changes can only be for the better. With the changes in the situation and the deepening of understanding, some specific policies should be readjusted and made complete and perfect correspondingly: this is also seeking truth from facts. Such "tiny readjustments" [wei tiao 1792 6148] may involve the temporary interests of a minority of people, but viewing the issue from the overall situation of reform, we find such changes are inevitable. The party always takes into consideration the interests of the majority in drawing up policies; so long as they are beneficial to the state and the people, they should be readjusted and made complete and perfect. By no means do readjustment, completion, and perfection mean turning things completely around. The conditions of reform are complicated, and there is no precedent to refer to. We should be resolute and bold in reform, while remaining careful and scrupulous. The demand of reaching perfection on every specific policy from the very start is impossible, and beyond the capability of anybody no matter how able he is. The readjustment of some specific policies does not mean changing the principle of reform, opening up, and invigorating the domestic economy. This is like watching television, even with the best TV set or program, some tiny readjustment is sometimes needed to get better vision and better effects. This is obviously entirely different from turning off the TV set.

The "Government Work Report" adopted by the 5th Session of the 6th NPC just concluded solemnly announced, in the whole course of opposing bourgeois

liberalization, the principle of reform and opening up to the world will remain unchanged, all existing rural and urban policies will remain unchanged, the principle of consolidating and developing the patriotic united front and all relevant policies will remain unchanged, the principle of continuously encouraging "letting a hundred flowers blossom, letting a hundred schools of thought contend" will remain unchanged, and the policy of showing respect to knowledge, showing respect to talented people, giving full play to the role of the intellectuals will remain unchanged. Not only will these policies remain unchanged, but will be adhered to in a more correct and efficient way for a still longer period of time. All people who are determined to devote themselves to working for the prosperity of the state and the affluence and happiness of the people should continue to make bold exploration, to work hard in unity, and to contribute their wisdom and abilities to our cause under the guidance of the party line, principles, and policies, so that we may continue to push forward reform and opening up with our wisdom and strength.

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## INDEPENDENCE OF STATE ASSETS MANAGEMENT STRESSED

HK230916 Beijing JINGJI RIBAO in Chinese 26 May 87 p 3

[Article by Liu Kegu (0491 0344 8339) and Fang Yu (2455 3768): "The Independence of the Government's State Assets Managerial Function"]

[Text] Our nation's whole-people ownership economy constitutes about 75 percent of the total national economy. At the present stage, the whole-people ownership system has adopted the form of state ownership and the vast scale of state assets are managed by various types of political organs at various levels. Therefore strengthening and perfecting the state's function in managing state assets mainly through government organs is a basic guarantee in increasing both the vigor of state enterprises and the economic benefits of state assets. Resolving this matter well is an extremely important task in our economic structural reforms.

### I. The Demands of Theory and Practice

Whole-people ownership enterprises are under state ownership and are state owned assets. This property relationship determines that the management of state assets is an important management function of socialist countries. We believe that if the government is to be able to scientifically carry out its function of managing state assets in accordance with objective laws, it must independently delineate the government's function in managing state assets.

In terms of theory, independently delineating the function of managing state assets or the power to manage state assets will in clearing up the muddled understandings of major reform questions such as the "separation of ownership and operational power" and the "separation of government and enterprises" in state enterprises.

Since 1978, in the rural areas and in the cities, our country has continued to carry out economic reforms that separate ownership and operational power. Viewed from the present results the rural reforms have basically achieved this separation. However, in the urban reforms, because of the nature and characteristics of industrial enterprises, especially the large and medium-size state enterprises and their position and role in the national economy, as well as the extremely abstract concept of ownership which is difficult to master in actual work, this separation has experienced great difficulties. If

we envisage a concept in which a fairly concrete state assets management power is extended from whole-people ownership of the means of production, and the highest organ of state power, the NPC, representing the whole people, exercises the ownership of state assets, entrusts and supervises the government in exercising the power of management over state assets and then proceeds to put forward the proposition of "separating the government's power of management over state assets and enterprises' power of management over production operations" this will be beneficial in truly resolving the difficult problem of separating the ownership of state enterprises and power to operate them.

The "separation of government and enterprises" in general includes three points. The first is the separation of government and enterprises in terms of organization. The second is separation of government and enterprises in terms of function. At present this point is not very clear. The difficult part of the problem is how to concretely separate government and enterprise functions. For example, is the decisionmaking of enterprises' plans and income allocation a government function or an enterprise function? Once there are concrete contents to state assets management power, the separation of government and enterprise functions will be extremely clear. The third is having the government not directly manage enterprises. This idea is rather vague and hazy and requires analysis. A precondition for the separation of government and enterprises is that the government and state enterprises shed their traditional administrative jurisdiction relationship of leader and led. However, the reforms in the last few years have not been able to resolve this problem. Although there has been the "handing down of enterprises" it has been nothing more than changing enterprises' jurisdiction relationship from one with the central authorities to one with local authorities. The essence of the subordinate relationship with government organs has not changed. The contradiction of the "unity of government and enterprises" has not been resolved. This traditional administrative jurisdiction relationship means that the government must manage state enterprises, but by its management it is violating the principle of "separation of government and enterprises." In this way, we are traveling a dead end road in trying to resolve this problem. In fact, the crux of the problem is that we have not clarified the double management relationship of a social relationship and a property relationship which exists between the state and state enterprises. When the government is exercising its general socioeconomic management function, it has a social relationship with all enterprises regardless of which ownership system they come under, and the government exercises indirect control over enterprises' activities mainly through economic and legal measures. When the government exercises its assets management function over state enterprises, it has a property relationship with state enterprise and it adopts direct control over major matters relating to assets management in enterprises. Therefore, in the first-mentioned relationship, the government should completely shed the administrative jurisdiction relationship with enterprises, but in the latter-mentioned relationship the government and enterprises must break free from the traditional administrative jurisdiction relationship, and the government should not intervene in enterprises' day-to-day production operation activities. However, the government must retain the state assets management

power. As far as state enterprises are concerned, the key to realizing the "separation of government and enterprises" lies in this question: What is to be managed under the government's state asset management function? Who is to manage it? How is it to be managed?

Viewed in terms of practice, state enterprises in socialist countries have two common failings: investment hunger and consumption hunger. Investment hunger and consumption hunger are also common failings of responsible departments of the central government and local governments. These problems share a common root. There is a weakness in the responsibility they bear for state investments in the department or region. This phenomena can also be called a weakness in government budgetary restrictions. On the one hand, on the demand level this forms an asset expansion impulse, and on the other hand, in terms of usage there is a great waste of assets and low effectiveness. If we analyze the weakness of enterprise budgetary restrictions together with the problem of the weakness of budgetary restrictions of the various responsible departments of the central and local governments, we discover that the weakness of enterprise budgetary restriction originates in the weakness of government budgetary restrictions. If we are to make enterprises develop in a vigorous and healthy manner, we must make enterprises' budgetary restrictions stronger. If we are to make enterprises' budgetary restrictions stronger, we must first make government budgetary restrictions stronger. The basic avenue for making government budgetary restrictions stronger lies in sorting out and strengthening the government's managerial function of state assets.

## II. Independent Operations

First, we must independently delineate the government's state assets managerial function. That is to say, we must change the situation where there is mixed operation of the government asset management function and general socioeconomic management function, and make the two operate independently. This will primarily benefit in strengthening the state assets management function and in improving the results of state assets because:

1) Establishing a state assets operational responsibility system at various levels from top to bottom, where each level is responsible for profits and losses in the use of state assets, will create basic conditions for improving the economic benefits of state assets. At the same time, it will provide an internal control mechanism for controlling the scale of state asset capital construction and the growth of consumption funds. 2) Having an independent state assets management department managing state enterprises can eliminate the situation where the general socioeconomic management function of government interferes with the state assets management function, and eliminate the negative protection of state enterprises by the government. This will create good social environment for truly implementing an assets operation responsibility system in state enterprises. 3) It will increase the scientific and comprehensive nature of state assets management. The contents of state asset management power are mutually related. At present, they are divided among various departments and these departments only take responsibility in one area. None of them is responsible for the overall efficiency of state assets. This method which dismembers and separates the

unified overall state assets management function is also a major reason why state assets efficiency is low.

Second, independently delineating the government's state assets managerial function will benefit in strengthening the government's general socioeconomic management function in terms of economic management and industry management. Because the two functions will operate independently, it will result in the state's planning, financial, pricing, banking, wage and welfare, and social safeguard departments being freed from taking direct responsibility for the economic results of state assets, and it will be truly possible to achieve the formulation of economic development strategies, plans, principles, and policies which are geared to the whole society and which proceed from the overall social and economic benefits of the society, realize the comprehensive, coordinated use of economic, legal and administrative levers and guarantee overall macroeconomic balance and the rationality of the industrial structure. At the same time, only when the two functions are independent will the specialized state economic management departments be able to eliminate the effects of the state assets management function, centralize strengths, and fairly and rationally carry out industry management, so that industry management is truly responsible for the overall results of the whole industry.

Third, it will benefit in basically resolving the problem of barriers between departments and region, in developing lateral alliances between enterprises and in promoting the formation of a competitive situation. The joint exercising of the government's general socioeconomic management function and the state assets management function was a major internal factor in the formation of barriers between departments and regions and the severing of lateral economic alliances between enterprises. Only by breaking down the situation where the general socioeconomic management function and the state assets management function are exercised together will the state assets management function be able to be exercised independently. At the same time, only by realizing the separation of the government's state assets operational power will it be possible to thoroughly eliminate the motivation, potential, and conditions for using state assets to seek benefits for the department or region. This will basically resolve the problem of barriers between departments and regions and will allow lateral economic relationships to be developed.

### III. Planning, Pace, and Management

The establishment of a state assets management system or, specifically, the establishment of specialized organs to centralize the state assets management power which is currently divided among various government departments, and establishing, from top to bottom, a state assets management system--this is the overall plan for organizing organs through which the government can manage state assets. At the present stage, establishing an independent system for managing state assets will be an extremely complex systematic project which will involve many factors. It must accord with the progress of current reforms and transitional measures which proceed at the same pace as the

reforms and which are thorough and feasible, it must be formulated and then implemented in a planned and gradual manner. In general, this can be carried out in three steps.

The first step will be to achieve internal separation. That means establishing state assets management organs within central and local financial and specialized economic management departments. For example, state assets bureaus can be established in central financial departments and these could independently exercise the function of managing state assets on a national scale. With the various specialized economic management departments, independent state assets management organs could be established to manage the central first-level state enterprises under that department. The various local first-level specialized economic management bureaus should first separate and shift the major functions which are now exercised jointly, get rid of the administrative jurisdiction relationships between the government and state enterprises and gradually realize the separation of state assets management power and enterprise assets operational power. The government will only retain the state assets management power. On this basis, independent assets management organs can be established and can take on the government's state assets management function.

The second step will be to sort out and merge. The original narrow specialized economic management organs will be sorted out and merged and will be changed into administrative management and asset management organs of a great span. For example, the Ministry of Petroleum Industry, the Ministry of Coal Industry, and the Ministry of Electric Power will be merged into the Ministry of Energy. The various original narrow administrative management and small-span assets management organs within the ministries will be separately merged into major industry management organs and large-space assets management organs within industries. At the same time, subordinate state enterprises will be merged into large-scale corporations like the State Petroleum Corp., the State Coal Corp., and the State Electricity Corp., subordinate to the Ministry of Energy's assets management organs. There will also be similar merging and readjustment in other specialized economic management organs at the central and local levels.

The third step will be to realize the external separation and independent establishment of specialized state assets management organs. The assets management power held by various central departments and local governments in managing state enterprises will be centralized, and independent central and local state assets management departments will be established. The controlled state enterprises will be readjusted and put in order and different levels and types of centrally and locally controlled specialized companies and holding companies will be established.

With an independent state assets management system managing our nation's huge scale of state assets, we should implement management forms based on levels and types. That is to say, in accordance with enterprises' nature and scale and their position and role in the national economy, they should be divided into three types--monopoly enterprises directly managed by the government;

semi-competitive enterprises which are semi-directly managed by the government; and enterprises which are completely competitive and which are indirectly managed by the government. Within each major group, the two levels of centrally managed and locally managed enterprises should be established in accordance with the central or local nature and their scale. In this way, six types of enterprises will be formed. The state should then manage these different types of enterprises differently in terms of management contents, organizational forms, and forms and methods.

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## JINGJI RIBAO ON UNANIMITY, DIVERSITY OF PRICES

HK230547 Beijing JINGJI RIBAO in Chinese 30 May 87 p 3

[Article by Song Tingming [1345 1694 2494): "A Random Talk on Price Reform"]

[Text] Prices are the most sensitive nerve in social economic life. Therefore, it is important from the practical point of view to clear away all uncertainties on questions such as unanimity and diversity of prices if we are to do a good job in price reform and make it thorough and straighten out the economic relation.

1. In the same market: When the price of a commodity is higher or lower than its value, it will certainly regress to its value in centripetal movement under the effect of the intrinsic force of value. This phenomenon in which the price of the same commodity in the same market tends to be the same is called the unanimity of price. As we are now developing a planned socialist commodity economy upon the basis of public ownership, we cannot violate this principle when carrying out the reforms in the price system and price management system. If this principle is violated, we will suffer punishment by the law of value. For instance, in the course of the price reform of our industrial and agricultural products, we adopt the price pattern of the "double track system" in which planned price and market price coexist so that the ossified condition resulting from the past implementation of a single and stable planned price can be done away with and significant effects brought about in invigorating the economy. However, we should also take note that in the strict scientific sense, the "double track system" violates the principle of the unanimity of price, and there will be quite a number of unfavorable consequences if it is implemented for a long period of time. In this way, people who put profit before everything, violate law, and disrupt order of society may seek personal gain for themselves or small groups by taking advantage of great differences in the two prices of a commodity. It will also cause violent fluctuation in the market, affect the establishment of the market system, and thus make the macro-operation mechanism unstable. Therefore, it can be seen that if the question of the unanimity of price is not solved at the right time during the reform, it would be rather difficult first to achieve the goal of straightening out the price, and then the relation of the entire economy.

2. In different markets, because of the external pulling force exerted by the relation of supply and demand, price deviates from the track of value in centrifugal movement; that is, when demand exceeds supply, the external pulling force will direct the price to a level lower than the value, but to a level higher than the value when demand does not meet supply. Therefore, the price differential resulting from the relation of supply and demand of a commodity in different markets is called the diversity of price.

In economic life, if we violate the principle of the diversity of price, we will also suffer punishment by the law of supply and demand. For instance, since we have never taken into account the relation of supply and demand in setting a price in the past, the planned price became a "dead price" and "iron price" that remained unchanged for several years or even a few decades. The price reflected neither the value nor the relation of supply and demand. As a result, some commodities that were urgently needed by society have been in short supply for a long time, or even "unavailable though there were set prices for them," whereas commodities of low quality that were not needed by society flooded the market, causing massive accumulation and vast waste. Take the following as another example. In the past, except for the differentials in wholesale and retail prices of industrial consumer goods, we have basically abolished price differentials regarding districts, seasons, wholesale volume, and design and color. The price differential in quality was not properly graded. No high price was set for goods of high quality, and no penalty was imposed on goods of low quality. All these severely hampered the normal production and flow of commodities and intensified the market condition in which supply was limited. After the 3d Plenary Session of the 11th CPC Central Committee, we have gradually resumed the relation of these price differentials in order to bring about the diversity of price. The tense supply condition of industrial consumer goods that has lasted for many years is now greatly relaxed. The state has abolished the method of exchanging industrial consumer goods for coupons; this measure has been enforced on over 40 types of industrial consumer goods, like cotton cloth, one after another, and unprecedented prosperity was seen in markets in cities and townships. Experience and lessons both positive and negative prove that as long as we can act correctly according to the demand of the diversity of price, the socialist commodity economy can be further invigorated.

3. We can see from this analysis that the price of a commodity is affected by two kinds of economic forces simultaneously. One is the intrinsic force of value that brings about the unanimity of price; the other is the external pulling force of supply and demand that brings about the diversity of price. The functions of these two forces are just the opposite. The price of a commodity is based on the balance between these two opposing economic forces. Therefore, it can be seen that price is a dialectical integration of unanimity and diversity.

Yet, price is a comprehensive reflection of the social economic conditions. Not only is it controlled by objective economic factors, but is also affected by subjective ones. The subjective factors are as follows: 1) The state's economic policy is affected by political factors. For instance, after the

founding of our country, the state adopted a low-price policy toward people's daily necessities and a high-price one toward non-daily necessities. Looking simply from the economic perspective, some people may think the policies unnecessary. However, from the political point of view, those policies were absolutely necessary during that historical period after the founding of our country for they manifested such fundamental a principle of the people's political regime as seeking interests for the majority of people. 2) Due to social, historical, national, or geographical factors, consumers tend to have their own consumption habits and mentalities regarding some commodities, which will also produce considerable impact on the prices of commodities.

In short, in setting the price of a commodity, we need to take into account all social factors, like subjective and objective ones, internal and external ones, political and economic ones, historical and practical ones, and so on, that will affect prices. All these social factors function together to determine the commodity price level and movement and contribute to make price an integration of unanimity and diversity. Therefore, in actual economic life, we cannot set the unanimity and diversity of prices against each other by artificial means or emphasize one aspect unduly while denying the other. For instance, if we only emphasize the unanimity of price but neglect its diversity, prices will be made stable artificially, and the economic life of the entire society will thus be ossified. However, if we only emphasize the diversity of price but neglect its unanimity, confusion will be caused to market prices, and speculation and profiteering that violates law and disrupts order fostered. Only by adhering to the dialectical integration of the unanimity and diversity of prices and carrying out the reform ceaselessly can we straighten out the relation of price step by step and achieve the aim of "causing no disorder despite the invigoration, and retaining flexibility despite the control."

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## ESTABLISHMENT OF STATE ASSETS CORPORATION URGED

HK250940 Beijing JINGJIXUE ZHOUBAO in Chinese 31 May 87 p 8

[Article by Feng Ailing (7458 1947 3781), Zhou Xiaochuan (0719 1420 1557), and Li Huayun (2621 5478 0061): "The Operational, Ownership, and Administrative Powers Should Be Appropriately Separated: An Idea on a Target Model in the Reform of Large and Medium-Sized State Enterprises"]

[Text] The enterprise system reform and especially the problem of reforming large and medium-size enterprises is a key link in our nation's economic structural reforms, and is also one of the important problems which has been difficult to resolve up to now both in theory and practice. This is the basic avenue which really make enterprises independent commodity producers and operators responsible for their own profits and losses and for invigorating enterprises, especially large and medium-size state enterprises. Very few comrades object to the direction of the reforms, but relatively great divergences exist between people's view on the avenues and target models for the enterprise structural reform. This article will attempt to carry out an initial inquiry into a target model for enterprise structural reform, or more precisely, into the question of what enterprise operational mechanisms should be established after the reforms, with the precondition of maintaining socialist public ownership as the main part. At present many people are researching the question of the separation of ownership and the power of operations in enterprise structural reforms. We believe that although in the last few years we have adopted a series of reform measures to try to invigorate enterprises, one of the major reasons we have encountered repeated difficulties is that we have not been able to effectively implement reforms in pricing or taxation. At the same time, other major reasons are that directive planning is still excessive and it is difficult to truly separate government and enterprise functions. The avenues for invigorating enterprises are not solely "handing down power and allowing the retention of profits." Rather, on the basis of perfecting macroeconomic regulations and the market mechanism, we should establish a system, independent of the government administration power system, to exercise ownership over state assets. On the basis of realizing a separation of administrative powers and ownership, we will be able to separate ownership and operational power.

I. The separation of administrative powers and ownership is an objective demand in establishing a new enterprise operational mechanism.

Since the 3d Plenary Session of the 11th CPC Central Committee, in order to invigorate enterprises the central authorities have adopted a series of measures, including "streamlining administration and handing down power," "reducing taxes and allowing profits to be retained," and implementing the "factory director (manager) responsibility system." However, because the old economic structure has not been basically reformed, and the market environment and enterprise operation mechanisms have not been obviously changed, although the central authorities have handed down power, it often occurs that the various levels of local administration intercept the power and enterprises change from their original situation of being appendages to upper-level administrative organs to being appendages of lower-level administrative organs. The result of this administrative division of power may easily lead to a weakening of necessary concentration and may result in various phenomena of decentralization harmful to macroeconomic interests. This may well lead to an imbalance in the major proportional relationship and an overall decline in economic results. In order to reverse this situation it is often necessary to retract power which had previously been handed down.

In order to deepen the structural reform of enterprises and avoid the cycle of "handing down power--retracting power," in the last few years there have been beneficial experiments in the separation of government and enterprise functions carried out in relevant fields. However, these experiments have far from allowed the degree of government enterprise separation necessary to truly turn enterprises into independent commodity producers and operators because although operational power was handed down, the power to make important decisions about the fate of enterprises and the power to appoint and dismiss senior personnel of enterprises was still in the hands of the responsible departments of government. Therefore, basically, enterprises still find it difficult to change their position of being appendages of government departments. Furthermore, the problems of having no way to take major responsibility for their profits and losses and of enterprises lacking vigor have not been basically resolved.

We believe that if we are to really invigorate enterprises, especially the large and medium-size enterprises, then we need to carry out a substantially profound reform of the enterprise system and the overall economic system, to basically resolve the problem in which government functions and enterprise operational mechanisms have been distorted. To this end, on the basis of breaking down government department functions, we must thoroughly get rid of the jurisdiction relationships between enterprises and government departments, and separate administrative management power and representative ownership of state assets. That is to say, the problem of separating the two powers of enterprises (operational power and ownership) means the overall separation of the three powers, namely, the separation of administrative power, ownership and operational power. At the same time, on the basis of enterprises implementing the shareholding system, we should take the conditioning relationship of ownership on operators and the balancing relationship within

enterprises between the operator and the staff and workers as the core, and establish a new enterprise operational mechanism. This will benefit in fairly thoroughly resolving the problem in our nation's economic structure in which government and enterprise functions are not separated. This will ensure that government departments will no longer concurrently act as managers of the economic activities of enterprises as well as representatives of the various interests of enterprises, and consequently, they will be able to act throughout the whole society as supervisors and managers of their industry. Also, enterprises, since they will be rid of the control and intervention of administrative departments, will be able to truly become independent commodity producers and operators. Within the limits allowed by state laws and policies, they will then be completely able to make their own decisions and arrangements in internal and external matters, and on this basis will become responsible for their own profits and losses.

## II. Specific plans for the separation of the three powers and for the target model in the structural reform of enterprises.

Many comrades who have researched the problem of enterprise structural reform hold that if we are to explore the direction of enterprise structural reforms under conditions of public ownership, it will be necessary to resolve well the following problems: 1) The real separation of government and enterprise functions in government departments; 2) the effective resolution of the problem of enterprises' soft budgetary restrictions; 3) the appropriate resolution of the public responsibilities borne at present by enterprises (such as free medical treatment for staff and workers, old age pension funds for staff and workers, and so on).

With the guiding ideology of trying to concurrently resolve the above problems, we propose these initial plans.

1. Establishing various state assets corporations which are completely independent of the administrative management system and which thoroughly implement enterprise-style operations (that is, non-bank financial organs which carry out the state's proprietary functions). These will be the general representatives of state assets and through asset appraisal and auction, a dummy capital tendering format will be used to transfer the ownership of assets of large and medium-size enterprises to these assets corporations. After this, these assets corporations will compete in the share market, and through investment and the buying and selling of shares, the rearrangement of important production factors will be promoted. In order to ensure full competition under equal conditions, to create motivation and pressure for the various assets corporations to improve their operations, and to safeguard the interests of consumers and the whole society, the various corporations should be allowed to break down barriers between different industries when making investments.

The state assets corporations will be directly responsible to the NPC. (It might be possible to establish a State Assets Commission within the NPC). The NPC will, on the basis of fully listening to ideas from consultative organs

comprised of specialists, appoint members to the boards of directors of the state assets corporations and determine and adjust the appropriate remuneration for the members of the boards of directors, in accordance with operational results. However, it will not have the power to interfere in the operational activities of assets corporations.

2. Universally implementing a restricted shareholding system in large and medium-size state enterprises. The state assets corporations will, using the form of participatory shareholdings at every level, ensure that the whole-people ownership economy component will be the leading force in our nation's economic life. Under this precondition, other economic components will not be excluded from holding, under state-stipulated principles, shareholdings in any enterprise. Shareholders, in accordance with the number of shares held, will enjoy enterprise profit dividends and will also shoulder appropriate risks.

The shareholders meeting will be the highest organ of power. It will be responsible for formulating the enterprises' constitution, for appointing and dismissing members of the enterprise's board of directors, for deciding major matters such as the scope of changes in the enterprise's activities, whether or not it should close down, and whether or not it should merge with other enterprises. The state assets corporation will only be able to participate in the establishment and supervision of the various enterprises' boards of directors in its capacity as a shareholder, and will not have the power to directly intervene in the operations and decisionmaking of the enterprises. In order to avoid having the state assets corporation directly intervening in enterprises' operational activities and making decisions on ordinary matters, in principle only legal person shareholders and not legal person directors will be permitted to intervene.

A number of competing specialist consultative organs will play a conditioning role in proposing names and in examining the qualifications for members of the board of directors, auditors, and accountants. They must also play a supervisory and public feedback role in the assessment of enterprises' operations, and a consultative and assessment role in major decisions (investments and others) made by the board of directors. Under public ownership conditions, they will be indispensable in restricting and balancing links separating ownership and operational power.

The board of directors will be the operational decisionmaking organ of the enterprise, and it will be responsible for appointing and dismissing the factory director (manager), for assessing and superintending the operational situation and for making decisions on enterprise operations, development, and other important matters.

The factory director (manager) will be responsible for implementing the board of directors' resolutions and responsible for the enterprise's day-to-day operational business. The remuneration of the factory director (manager) will be decided and readjusted by the board of directors in accordance with operational achievements. The middle-level and lower-level cadres will be appointed and dismissed by the factory director (manager).

The enterprise, as a legal person, will have an independent status and will no longer be subordinate to any government organ. The relationship between the enterprise and the state assets corporation and other investors will be a relationship between an assets consignor and a consignee. It will not be a relationship of subordination. At the same time, the enterprise will be the representative of an investment with which it has been entrusted, and its various types of assets will form an inseparable whole. Therefore, within the limits allowed by state laws and policies, the enterprise will have the power to use the assets with complete freedom, engage in its own operations and be responsible for its own profits and losses.

3. In order to ensure that all of assets corporations strive for the target of maximizing long-term profits and are able to appropriately resolve enterprises' problems in terms of the public responsibilities they bear at present, we can deduct medical funds, retirement funds, unemployment insurance funds, and a portion for scientific, educational, and cultural funds from the financial administration and enterprises' expenditures and appropriately transfer these responsibilities to the state assets corporations. In this way, the state assets corporation will be like a pension fund organization or an insurance company which engages in investment and holding company business in developed countries. Each state assets corporation must, in its equity business, select the superior and allow the inferior to be eliminated, in order to guarantee that from these it can obtain some of the profits and can cover the medical costs, pension funds, and scientific, educational, and cultural funds of the staff and workers for which it is responsible, and so that it can pay insurance costs for the professional risks mentioned above. Following the continued expansion of the economic power of the assets corporations, their business scope can gradually develop in the areas of life insurance, unemployment insurance, and mutual investments. In such a situation, residents and corporations will be able to choose the organs they wish to deposit their pension funds and insurance funds with, in accordance with the operational situation and the rates quoted by the various corporations.

On the one hand, the state assets corporations will be subject to the direct supervision of the NPC and will also be subject to the supervision of the vast numbers of residents and enterprises, so as soon as they are established, they will have to be highly professional and specialized financial organs with contract obligations, with their major goal being the continual seeking of maximum economic results. Their main responsibility to the state will be to ensure that the assets they control and operate increase and realize the greatest profits to ensure the continually developing demands of the state's scientific, educational, cultural, and health undertakings, as well as guaranteeing the livelihood of the retired staff and workers it is responsible for.

4. A necessary condition for implementing the above-mentioned plan is the employment of a stock market. We believe that a stock market which is legitimately operated and properly guided can avoid the problems some comrades are worried about. Employing a stock market can resolve the problem of

assessing enterprises' operational achievements and encourage the rearrangement of major production factors. To aid the flow of funds, in principle, enterprises shares should be allowed to be transferred between state assets corporations and within other stipulated limits. In addition, it will be necessary for the stock market's operational, supervisory and regulatory systems to carry out specialized operations in order to prevent the expenditure of funds through improper channels and administrative interference from any side.

### III. Several questions which need to be answered and explained.

1. Could the state assets corporations become "second governments"? We believe that because they will control the majority of shares, the state assets corporations will have the power of control over the operational direction and major decisionmaking of the majority of large and medium-size enterprises. However, there is a basic difference between this and the present situation of government departments directly controlling enterprises. Because government departments have administrative management responsibilities, they should safeguard the interests of consumers and the whole society, while enterprises which have implemented economic accounting must take profits as their major objective. At present, because government departments directly control enterprises, when there is a contradiction with the latter's operational mechanism, the government department can use administrative intervention to obstruct the enterprise from acting in accordance with commodity economy patterns, or else it can disregard the interests of the consumers and the state. The state assets corporations, without administrative management functions and responsibilities, will have the same economic goals as enterprises, that of obtaining maximum profits. Thus their supervision and control will not produce a plurality of enterprise goals or the distortion of operational mechanism. At the same time, state assets corporations, as investors will carefully exercise their power to organize, supervise, and readjust the members of enterprises' boards of directors, and to the greatest degree give operational power to enterprises.

2. The role of government departments in economic activities after the separation of the "three powers." We believe that after the "three powers" have been separated, because the government departments will no longer be the specially designated representatives of group interests, they should become safeguarders of good economic order and the guiders of economic development. They will no longer shoulder overall economic responsibility and will only, within the scope of their functions, be responsible for formulating policies and for administrative management. This will be advantageous in eliminating the phenomena of "divisions between departments and regions" and "too many policies." It will also benefit to strengthening work cooperation and policy coordination between departments and will improve the overall efficiency of administrative management. In this situation, government departments should and truly will be able to be reduced in size and streamlined.

3. Necessary market conditions. Although the core of this article is the exploration of the problem of enterprise structure, it is important to point

out the necessity of creating a market environment which accords with the above-mentioned enterprise structure. Because the enterprise reforms and the various aspects of the economic reform are mutually dependent, if we divorce ourselves from a market mechanism formed and guaranteed by market levers such as a rational pricing system, proper and flexible financial policies and standardized taxation policies, no ideal enterprise system can be established.

#### IV. An idea and a necessary explanation.

This article contains only a simple description of our target model for the reform of large and medium-size state enterprises. It is not a plan for implementation and it does not discuss how to plan present reform steps. These questions and many related questions require another article. What needs to be explained is that if the target model is relatively well-knit and rational, then the road towards this target is fairly clear and the way forward along this road can be appropriately broken down into individual steps. Of course, the above-mentioned reforms are not without danger. However, there is probably no reform which is not dangerous or which can be done in one step. We sincerely hope that all those comrades with different ideas will provide illustrative analyses of the above-mentioned problems so that together we can seek a feasible enterprise reform target model which accords with China's reality. And in this way we can reduce as far as possible the twists and turns of reform.

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CSO: 4006/776

## JINGJI RIBAO ON ECONOMIC REFORM REVOLUTION

HK210934 Beijing JINGJI RIBAO in Chinese 6 Jun 87 p 1

[Article by JINGJI RIBAO observer: "Reform, the Second Revolution in China"--  
passages within slantlines published in boldface]

[Text] China has practiced economic structural reform for 8 years.

What has this reform of 8 years brought us?

The output of industry and agriculture has been growing steadily. People's living standards in both the urban and rural areas have gradually improved. The fields, full of hope, are like faces with broad smiles. The vegetables and meat in people's food baskets are increasing day by day. Color televisions, refrigerators, radios, and so on have found their way into the homes of people. The above phenomena can be easily noticed and are commonly known. At the same time, some undetectable and yet profound changes are silently taking place in certain links of the economic operational mechanism and deep within the society.

/The first change is in the economic pattern./ In the past, our economic pattern for production was based on highly-centralized mandatory planning. The state practiced an all-inclusive plan and assumed overall responsibility in guiding all social and economic activities. The plan was implemented according to the administrative commands. Practice showed that the plan did not work. In the torrent of reform, rural areas took the lead to break the convention of unified operations, group labor, and state mandatory planning in the production of grain and cotton. The power of deciding what to plant was returned to the peasants. The system of contract responsibility with payment linked to production was implemented in full scale. Commodity economy developed vigorously. These were closely followed by the urban reform, and there was a rapid switch to the pattern of planned commodity economy. Planning is no longer a pronoun for administrative command. The long overlooked and neglected "idle factors"--law of value and market regulation--have become popular and played a dominant role.

/The second change is in the industrial structure./ The strategic adjustment of the ratio of agriculture, light industry, and heavy industry and the rapid emergence and development of tertiary industry are the noticeable changes in

the reforms of 8 years. Given this as a turning point, there has been a rapid switch of agricultural workers to nonagricultural areas, a leading advance by the basic departments, such as energy, transport, and raw materials, potentials brought into play along the east coast regions, and systematic exploitation of the resources in the central and western regions. All these factors are forming a great blueprint marked by the coordination of our industrial structure and increasing rationality and evenness in its distribution.

/The third change is in the system of ownership structure./ The adjustment in macroeconomy brought about the change in microeconomy. The change of unitary mode of the two public ownership systems, the state and collective ownership systems, is noticeable. Due to the continuous development and growth of the economy of ownership by the whole people and under the condition of the leading role it plays, various types of economy, such as collective, individual, Chinese-foreign joint venture, wholly foreign owned, and shared capital, are burgeoning and exercising their magical powers.

/The fourth change is in the operational pattern./ As product economy is changing to planned commodity economy and as the ownership of an enterprise is separated from the power of operations, dull and mechanical operational patterns are replaced by diversified and flexible ones. Even in enterprises under the system of ownership by the whole people, state-run commercial enterprises have their own distinguishing features, such as "changing, shifting to other lines of operation, leasing, and selling"; state-run industrial enterprises also conduct numerous contract systems, such as undertaking two guarantees and one link, contracting for reduced losses, and sharing extra-base profit. Eight major industries, namely petroleum, coal, petrochemical, metallurgical, non-ferrous metal, railroads, posts and telecommunications, and aviation have also grandly instituted different forms of the contract systems for all trades under which enterprises are responsible for input and output.

/The fifth change is in the pattern of opening to the outside world./ The reform of 8 years has opened the country's door, which had long been closed for various reasons. Since the 3d Plenary Session of the 11th CPC Central Committee, the central authorities have decreed that opening to the outside world is our basic national policy. The four special economic zones--Shenzhen, Shantou, Zhuhai, and Xiamen--were the first to open their doors. Fourteen coastal cities including Tianjin, Shanghai, and Dalian, and Hainan Island followed suit. The Changjiang and Zhujiang deltas and the triangular zone of south Fujian even excelled their predecessors. This arc-shaped region open to the outside world spans thousands of kilometers from south to north. China is shifting from a closed to an open economy.

/The sixth change is in the function of cities./ A big country with vast territory and millions of enterprises like ours needs to organize its economic construction well and cannot directly take care of the great multitude of enterprises. Objectively, the country needs to develop the function of economic management at levels in between. We used to depend on departments

and areas. As a result, we often suffered from separation between departments and areas, barriers between areas, and disputes over trivial things. In this 8-year reform, we have turned out attention to the cities. The country is gradually forming a network of lateral economic ties with the cities, especially the large and medium ones, as the prop, the large and medium size enterprises as the backbone, and the products and tapping of resources as the center. The limit of financial and economic management power is gradually expanding. The attraction, radiating effect, and proficiency for all-round services of cities have been greatly strengthened.

/The seventh change is the status of enterprises./ Enterprises used to be the subsidiaries of state administrative organizations and the executors of state mandatory planning. They only had one duty, which was to carry out the various instructions decreed by the state. They had neither decisionmaking power nor vitality. In the reform over 8 years, enterprises have had their decisionmaking power gradually expanded and have become independent economic entities. They have also learned to swim in the ocean of commodity economy and have turned themselves into producers and operators of socialist commodities. While deepening their reform, enterprises are also improving their capacity in "independent operations, the responsibility for profit and loss, self-accumulation, self-reform, and self-development." The "cells" of socialist economy have begun to be "invigorated."

/The eighth change is in people's ideological concept./ Man's social being determines his consciousness. Looking back at the changes of the last 8 years, to our amazement, people, the key entity of the reform of the economic structure, have changed the most. At the beginning, people had just broken away from the nightmare of the "Cultural Revolution" and were still trembling with fear. Now the concept of reform and opening, value, competition, efficiency, information, marketing, and respect for knowledge and talent has exerted a silent but influential power and has penetrated deep in the mind of people, both old and young.

A roc soars aloft with the wind, flying as high as 90,000 thousand li in the sky. During the reform of 8 years, people have pondered and summed things up. They can see from the large number of figures and words that the outline for building socialism with Chinese characteristics has been drawn. The reform has just started. Changes are emerging. We do have reasons to believe that by adhering to the reform and relying on continuous changes of even deeper impact and greater power are yet to come.

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CSO: 4006/774

## GUANGMING RIBAO ON INCREASE IN SOCIAL DEMAND

HK250327 Beijing GUANGMING RIBAO in Chinese 6 Jun 87 p 3

[Article by Zhong Cheng (6988 6134): "A Probe Into the Question of the Increase in Total Social Demand"]

[Text] In recent years, economic theoretical circles in our country have carried out a conscientious probe into the question of the cause contributing to the increase in total social demand and its consequences. Here, proceeding from the activities of the distribution of national income, we would like to express our preliminary view on this issue.

#### The Cause for the Increase in Total Social Demand

The process of the distribution of national income is actually a unity of the process of monetary distribution and the process of monetary realization (huo bi xing cheng 6303 1578 1748 2052). Through primary distribution, and redistribution based on the monetary distribution amount corresponding to the amount of national income produced, total social demand, which reflects accumulation and consumption, is first of all, put forward. After that, the demand is satisfied through the exchange of physical goods and products.

The increase in total social demand is mainly due to the imbalance between financial revenue and expenditure and to the imbalance between credits and payments.

The primary distribution of national income accounts for the net income of the state, the net income of enterprises, and the net income of individual laborers. Due to the fact that national income is a sum total of these three kinds of incomes (calculated according to the method of distribution), theoretically at the stage of the primary distribution of the national income, the monetary distribution amount should be equal to the amount of national income produced. The fact that the increase in the net incomes of the laborers exceeds the increase in national income will have a bearing only on the proportion of distribution of the three kinds of incomes mentioned above, and will never increase the total amount of monetary distribution.

The redistribution of national income is carried out through the four channels of financial budget, loans provided by the state, payments in labor service,

and changes in price. The redistribution through the payments in labor service and changes in prices can only change the structure of monetary distribution, but will not affect the total amount of monetary distribution.

In the course of redistribution through financial budget, when financial expenditures are smaller or equal to financial incomes, the total amount of monetary distribution will not change. When financial expenditures exceed financial incomes, financial deficits can be made up through issuing bonds or making a bank overdraft. Issuing bonds at home is tantamount to transferring the use of part of the amount of monetary distribution. Issuing bonds abroad is tantamount to borrowing from foreign countries parts of the national income. The issuance of bonds will not affect the total amount of monetary distribution. However, there will be a burden of paying the principal and interest for the newly-created national incomes. Making a bank overdraft means an increase in the amount of pure monetary distribution. Therefore, the imbalance between financial incomes and expenditure is an important reason attributing to the increase in the total social demand.

Let us examine redistribution through the channel of credit. The main sources of the credit funds of the state are: 1) various kinds of bank deposits; 2) fund possessed by the banks; 3) monetary issue. Banks credit all these funds to satisfy the needs in social and economic life. With the growth of the economy, it is rational to increase a certain amount of monetary issue every year. Judging from the society as a whole, the total amount of loans is not necessarily smaller than the total amount of deposits. The problem is that when loans are higher than deposits, there should be an objective and normal limit. Exceeding this limit means that the amount of monetary distribution becomes increasingly abnormal. Therefore, imbalance between credits and payments is another reason attributing to the increase in total social demand.

In recent years, we have faced financial deficits except in 1985. In 1985, there was a slight surplus in our country's financial incomes and expenditures. In the rest of the years, we have suffered from deficits. The imbalance between bank deposits and credits is getting increasingly serious. To a certain extend, all this has caused the increase in credit demand and the amount of monetary issue. This shows that an increase in total social demand has occurred in our economic life, which merits our close attention.

#### Conditions for the Increase in Total Social Demand

Macroscopically speaking, there are two main conditions for the increase in total social demand:

1. In the process of arranging or implementing the plan, if the newly-increased demand in accumulation and consumption exceeds the supply provided by the development of production, the amount of monetary distribution will exceed the amount of national income produced. This situation will easily happen when we overlook the importance of the overall balance of the plan. For example, in 1985 the amount of national income produced was 682.2 billion

yuan, 22.7 percent higher than the planning target set by the state at the beginning of the year. However, in the same year, the investment in fixed assets made by units under ownership by the whole people was as high as 168.1 billion yuan, 42.2 percent higher than originally planned. Total wages of workers and staff members were 138.3 billion yuan, 40.1 percent higher than originally planned.

2. In the course of changing the pattern of economic system, the traditional macroscopic means for readjustment and control has partly lost its binding force. In the meantime, the macroscopic means for readjustment and control, which conforms with the decentralized decisionmaking power for investment and power to control income, has not yet been established or perfected. This will easily give rise to the situation that the amount of monetary distribution exceeds the amount of national income produced. In 1985, income not covered in the state budget was 170 percent higher than in 1980. This means that the percentage of the budgetary revenue of the state increased from 51 percent to about 80 percent. In recent years, we have made more investment in fixed assets. This has mainly been due to extrabudgetary funds.

Microscopically speaking, under the conditions that the relations between enterprises and the state in terms of rights, responsibilities, and interests have not yet been basically straightened out, that the practice of "eating from the same big pot" in enterprises in terms of distribution has not yet been completely overcome, and that the incomes of enterprises are not yet fully linked with their business and management, the situation of blindly expanding investment and increasing incomes can easily occur. This is a great pressure on increasing the amount of monetary distribution. In the meantime, if we fail to adopt a strict means of macroscopic control, the increase in total social demand is inevitable. It was precisely under the conditions mentioned above that in 1985 the growth of investment in capital construction by units under ownership by the whole people was as high as 44.6 percent. After price factors are deducted, it is still far higher than the 12.3 percent growth of national income. The increase in consumption and nonproductive accumulation exceeded the increase in national income.

#### **The Consequences of the Increase in Total Social Demand**

With the increase in total social demand, the amount of monetary distribution in economic operation is expanded. We are then compelled to use our savings, increase net import, and adopt other methods to make up the balance between supply and demand. It is difficult to maintain the balance in finance, credit, materials, and foreign exchange. Its consequences in national economy are mainly reflected in the following:

1. The rise in price level. The excess of the amount of monetary distribution over the amount of national income produced is mainly offset by price increase. In other words, through inflation and devaluation of currency, the demand represented by money and the supply of goods can be balanced after increasing price level. If the price increase is too fast and exceeds the ability of the society to take the burden, economic chaos will

occur. In recent years, the general price level in our country has increased. For example, in 1984, the retail price index of commodities increased by 2.8 percent. In 1985, it increased again to 8.8 percent. In 1986, although we adopted a series of measures to curb the rise, it was still as high as 6 percent. Apart from the normal price readjustment factors in economic structural reform, all this was, to a fairly large extent, due to the excessive increase in demand. What merits our special attention is that under economic conditions of price control in our country, the increase in total demand is not fully reflected in price changes. It is partly reflected in the "hidden" inflation. It does not only continue to exert pressure on the current consumer goods market and market of means of production, but also greatly hampers the future balance between total supply and total demand of the society.

2. Rational readjustment of the industrial structure is affected. For a long time in the past, basic industry was a weak link in our country. General processing industry is our strong point. In recent years, there has been a trend of blindly expanding nonproductive construction. From 1978 to 1985, the proportion of productive investment in the investment of capital construction made by units under ownership by the whole people increased only by 6.4 percent, whereas nonproductive investment increased by 23.6 percent. The proportion of productive investment in total investment amount dropped from 79.1 percent to 56.9 percent. The increase in total social demand has brought about an excessive demand in goods. This will sharpen the contradiction in those basic industries, which are not flexible enough in supply, and stimulate the blind expansion of the processing industry in general, which is flexible in supply, and nonproductive construction. As a result, the industrial structure will become even more irrational. The national economy will even be compelled to make a major readjustment again.

3. The smooth progress of economic structural reform is affected. Economic structural reform needs a stable social and political environment and the guarantee of certain financial and material resources. Under the condition of the increase in total social demand, financial burden is too heavy and supply and demand of loans are tense in addition to more pressure from external loans and price increase. Obviously, this will make reform more difficult. Although we subjectively hope that reform will promote economic development, the form is slowed down because of the excessively intense operation of the economy.

In a word, the increase in total social demand will eventually affect the long-term stable development of the socialist economy. Therefore, we should stick to the principle of maintaining a balance between total social demand and total social supply. While making efforts to conscientiously reform the operational mechanism of enterprises, we should do well in strengthening and perfecting the macroscopic means of control for the planned commodity economy. In particular, we should strive for a basic balance between financial revenues and expenditures on the one hand, and between credits and payments on the other. On such a basis, we should also strive for a basic balance between the supply and demand of goods and between revenues and expenditures in foreign exchange. Only thus can we prevent the increase in total social demand.

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## GUANGMING RIBAO DISCUSSES PRICE REFORM

HK230737 Beijing GUANGMING RIBAO in Chinese 6 Jun 87 p 3

[Article by Cong Yanzi (0654 3601 3320): "Financial Policy Regarding Price Reform of the Means of Production"--passages within slantlines published in boldface]

[Text] To resolve the question of the relatively low price of energy, raw materials, and other means of production in a planned and step by step manner is the focus of price reform during the 7th 5-Year Plan. In the course of price reform of the means of production, the capacity of state finance is an extremely important conditioning factor. In this article, I would like to present some of my personal views on financial policy regarding price reform of the means of production.

/Price reform of the means of production should be brought into line with the financial plan./ The financial situation of the state is the overall reflection of the state's macroeconomic conditions. A favorable financial and economic situation is a necessary condition for smoothly carrying out price reform. The major or minor steps taken in the current price reform of the means of production and the social effect of the reform are conditioned to a great extent by the financial situation. Price reform of the means of production cannot in itself create social wealth. In other words, price adjustment cannot change the actual amount of commodities. But it can change the amount of funds concerning social products and redistribute the economic benefits of various fields, thus affecting state revenue and expenditure, the profits of enterprises, and the living standard of workers. To enable a steady development of social economic life, it is necessary to take the capacity of various aspects fully into account which requires the support of state finance. For this reason, the financial policy regarding price reform of the industrial means of production should first bring price reform of the means of production into line with the financial plan of the state so that it corresponds with the state's financial capacity. Consequently, we can strengthen macrocontrol over finance and create a fine environment for price reform of the industrial means of production.

/Structural readjustment is an appropriate measure for price reform of the means of production./ Price hikes of the means of production will drastically increase the cost of production and capital construction projects,

reduce state revenue and increase expenditure, and create difficulties for maintaining a balance of revenue and expenditure. We have to take great risks in this regard. Therefore, the two-step reform, first within trades and then between trades, is recommended for readjusting the prices of the means of production. First, it is necessary to resolve the question of irrational prices within trades. On the premise of maintaining stability of the overall price level of each trade, the taxation lever should be applied to increase the tax rates of profitable commodities and cut down the tax rates of commodities that make little profit or sell at a loss, or exempt them from taxation. The disparity of profits within trades should be resolved through readjustment of the tax rates. Thus, we can mitigate the contradiction of the irrational price system, avoid social turbulence that may arise from price reform of the means of production, and create conditions for the state to carry out price reform in a planned and step by step manner.

/It is necessary to establish a price readjustment reserve fund./ As we are now at the initial stage of the all-round reform of the economic structure, each proposed reform measure should have financial support. This is also the case in price reform of the industrial means of production. We should leave some margin for state finance so as to avoid social turbulence that may arise from price reform of the means of production. To ensure that price reform of the means of production will not be affected by the financial situation and that the reform measures will not affect the financial balance of the fiscal year, it is necessary to establish a price adjustment reserve fund. The money may derive from part of the lump sum payment or the curtailed financial expenses, such as the capital construction and administrative funds raised by local areas, particularly the expenses for meetings, parties, and celebration activities. The amount of money saved should be used to support price reform of the means of production. The establishment of the fund can enhance the reserve strength of the state to readjust the economy, prevent the tense financial situation from suffocating the reform of the economic structure, vigorously support the smooth progress of price reform of the means of production, and promote the steady and sustained development of the national economy.

/Price reform of the means of production should be carried out by stages./ As the price readjustment of the means of production requires quite a long process, we cannot expect to readjust the irrational price parities at one stroke. Meanwhile, the labor productivity and the production conditions of various products are constantly changing. Moreover, these changes are uneven. The price parities that have become rational through readjustment may become irrational again after a few years. For this reason, price reform of the means of production should be carried out step by step at different levels in light of the objective conditions. This is also an important way to promote the gradual reduction of the "double track" price differences of the means of production. Aiming for quick results will bring no success.

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## RENMIN RIBAO ON REFORM ACHIEVEMENTS, PROSPECTS

HK190915 Beijing RENMIN RIBAO in Chinese 12 Jun 87 p 5

[Article by Yan Tao (0917 3447): "The Achievements in Our Economic Reform and Its Outlook"]

[Text] Since the 3d Plenary Session of the 11th CPC Central Committee, our economic reform, first started in the countryside, has been underway for 8 years. Today, we should review the course traced by this reform of far-reaching historical significance and have a clear idea of the great achievements scored and peer into the future for the deepening of the reform on the road ahead. This is without doubt highly necessary.

## The Economic Pattern has Undergone Obvious Changes

Experience in our economic reform in the past 8 years shows that the general guideline of "enlivening the domestic economy and opening up to the outside world" defined since the 3d Plenary Session of the 11th CPC Central Committee and the direction of the reform and the aim in developing a planned socialist commodity economy, as called for at the 3d Plenary Session of the 12th CPC Central Committee, are entirely correct. In the past few years, our reform, generally speaking, has been based on the actual conditions of our country. Reform of 8 years has given an effective boost to the sustained and steady growth of our national economy, enabling our economy to enter a period marked with the most vibrant development since the founding of the PRC, the quickest growth of national resources, and realization of the most actual benefits for the people.

Because of the defects in our original economic system marked by overconcentration and too rigid control, the road of reform followed by our country a few years ago was one of revitalizing enterprises, stimulating circulation, opening up to the outside world, and strengthening economic vitality. The reform began first in the countryside and gradually extended to cities. In the countryside, the main effort was to introduce the system calling for basing remuneration on output with each worker held responsible and with households as its focus, to raise the purchase prices for agricultural and sideline products, to reform the circulation system, to energetically develop a diversified economy and a commodity economy, and to give full play to the enthusiasm of the masses of peasants. In cities, the

main effort was to introduce various ingredients of an economy and various ways of operation, to enlarge enterprise decisionmaking power, to establish and develop various markets, and to encourage enterprises in competition. Meanwhile, an appropriate improvement in macroeconomic management was made. Attention was paid to using economic and legal means to regulate the economy, stimulating a gradual transition from the old to the new system. Through reform, our economic pattern has undergone the following obvious changes:

With the development of various ways of operation and various versions of the system of ownership, enterprise vitality has obviously been boosted. For a long period of time, our enterprises and basic-level economic units basically followed a unilateral system of public ownership and a way of operation with unified control over receipts and expenses and concentrated distribution. Enterprises were actually appendages to departments in charge. The separation of responsibility, power, and interests in their relations assumed serious proportions. Economic results were very poor. Since the reform, 98 percent of peasant households in the countryside have introduced the system calling for basing remuneration on output with each worker held responsible and with households as its focus. In cities, various versions of the operation responsibility system based on different enterprise conditions, such as commitment to contracts, contracting for leases, and so forth, have been developed. Such practices as involving some units in partnerships and operation on a joint-venture basis have also been introduced. At present, small state commercial enterprises involved in operations under leases account for around 60 percent. Meanwhile, in light of such a fundamental national situation marked by the relatively low level of productivity and quite uneven development among various areas and various departments, given the upholding of the system of public ownership as the basis and the system of ownership by all the people as a dominant factor, we have also appropriately restructured the ownership pattern and actively developed the collective economy, the individual economy, and other economic patterns, meeting the needs of the development of productivity. As far as enterprises owned by all the people are concerned, the results of these reforms have not only boosted to a certain degree the interests of enterprises, but also strengthened the responsibility of enterprises, enabling their sense of operation, concept of competition, and spirit of exploration to be markedly enhanced.

With the narrowing of the scope of mandatory state plans and unified set prices, the market mechanism has started to play an important role. In the past, we overemphasized control based on mandatory plans for material things and rejected the law of value and role of the market. The mechanism for operation of the economy was inflexible. In the past few years, we have substantially reduced the products put under the direct control of state plans and enlarged the scope of market regulation and the proportion for which it accounts. By the end of 1986, the variety of products under mandatory industrial plans subject to control by the State Planning Commission, had been reduced from about 120 kinds to 60. The percentage they accounted for in industrial output value had shrunken from 40 to around 20 percent. The variety of commodities subject to unified state control was reduced from the stipulated figure of 256 kinds to 20. The variety of commodities subject to

planned control by the Ministry of Commerce was slashed from 188 to 23 kinds. For various kinds of commodities, floating prices and market prices have been proportionately introduced, with agricultural and sideline products accounting for 65 percent, industrial consumer goods 55 percent, and the means of production 40 percent. Given the continuous development of the market, the law of value has played a gradually strengthened role in stimulating the convergence between output and demand and regulating supply and demand, bringing about relatively great changes in the mechanism for economic operation.

With a change in the pattern of distribution of national income, there has been a switchover in emphasis from the financial channel to the credit channel, as far as economic construction funds are concerned. Under the original system, the redistribution of national income was basically effected through the financial channel. For economic construction funds, loans were generally granted with no compensation and the phenomenon of sharing equally from the "big rice pot" was relatively serious. Results in the use of money were very poor. After the past few years of reform, the percentage of money at the disposal of the state and subject the planned use (revenue plus increase new bank deposits) in national income has not dropped. It was 39.5 percent in 1978 and 39.7 percent in 1986. However, given marked changes in the ratio between the financial and credit channels, the percentage of revenue in national income has dropped from 37.2 percent to 25 percent. The percentage of increased new bank deposits in national income has risen from 2.3 percent to 14.7 percent. Of the total amount of money committed to production, construction, and circulation, allocation from the financial channel has dropped from 76.6 percent to 31.6 percent. The amount from the bank channel has risen from 23.4 percent to 68.4 percent. The situation of providing economic construction funds with no compensation has shown a big improvement. Financial means have begun to play an important role in regulating overall social demand and stimulating production and construction. Necessary conditions have also been provided for the gradual switchover in emphasis from direct control to indirect control in macroeconomic state control. This is an important achievement in the economic reform.

With increased economic and technical ties with foreign countries, the closed-door version of an economy has begun to change in the direction of an open-door version. In the past, a long period of implementation of the policy of "shutting the country from the outside world" and the rejection of advanced foreign technology and economic management experiences seriously impeded the development of our economy and the improvement of our technical and management levels. In the past few years, under the guidance of the general guideline and general policy for socialist construction calling for reform and openness, the situation has shown a big improvement. Our country has initially formed an open area with the coastal areas as its front and gradually extending inland, with important progress achieved. Up to the end of 1986, a total of \$20 billion was raised from foreign countries. More than 10,000 technological projects were imported. Over 7,700 foreign-funded enterprises and Chinese-foreign joint-venture and cooperative enterprises were launched. Import and export trade was more than 200 percent greater than that before reform. The

percentage of total exports in national income rose from 5.6 percent in 1978 to 12 percent in 1986. This means that the degree of openness has doubled in a matter of a few years. Opening up to the outside world is playing an ever-greater role in our economic development.

#### The Economic Reform Has Stimulated the Healthy Development of Our Economy

The reform of 8 years has been carried out in a planned manner under the guidance of the party's correct guideline. Reform is working on eliminating the rigid economic system that makes it difficult to give full play to the superiority of socialism. It also continuously helps in smashing various hackneyed and ossified theoretical viewpoints, thus enriching and promoting the development of the Marxist economic theory and giving rise to a series of factors with a profound effect on the healthy development of our economy:

Readjustment of the industrial composition and mix of products and the coordinated development of agriculture, light industry, and heavy industry are stimulated. It is worth noting that of the primary, secondary, and tertiary industries, the tertiary industry--long in a backward state--has shown relatively rapid growth. The ratio among the three major industries changed from 30.8 : 48.2 : 21 in 1980 to 29.8 : 44.5 : 25.7 in 1985. This had a very good effect on developing production, improving life, and increasing employment. Meanwhile, the relationship among agriculture, light industry, and heavy industry has changed from the previous situation of overemphasis on light and heavy industry in the direction of coordination. The ratio changed from 27.8 : 31.1 : 41.1 in 1978 to 34.1 : 31.5 : 34.4 in 1986. The phenomenon of an overall shortage of consumer goods that long existed under the old system has shown a big improvement. Serious shortages of energy and raw materials--except for electricity, still in extremely short supply--have generally begun to be relieved. Of course, mainly for historical reasons, the first problem of our economic structure is that the irrationality of the industrial composition, especially the phenomenon of some patterns at deep levels being irrational, has not been overcome. This also cannot be overcome in a short period of a few years. This is inevitably a long-term strategic task. To accomplish this strategic task still calls for the continuous deepening of the reform in a proper manner. For example, the development of energy and materials industries today still lags behind the development of the processing industry. Machinery and electronic industries still fail to meet the needs of the development of new technology. There is also lack of coordination between the production composition of consumer goods and the mix of needs. Only through further reforming the investment system and financial system and subjecting the investment composition and consumption composition to rational guidance can problems like these be gradually resolved.

Impetus is provided for sustained and steady growth of the economy. For quite a long period of time, given mistakes in the development strategy and the inflexibility of the economic system, our national economy was once again marked by the abnormal phenomenon of great fluctuations. This does not help in the smooth development of productivity and in gradually improving the people's life, thus seriously hampering the development of the superiority of

socialism. In the past 8 years, the reform of the economic system and the change in the development strategy have brought about great changes in the situation. Because of the rural reform, the mechanism for agriculture's "self-generated blood" has been strengthened. An important foundation has been laid for the steady development of the national economy. The initial readjustment of the economic composition has provided more opportunities and choices for the even development of the economy. An increase in the financial, monetary, and other indirect means of regulation and control has prevented the occurrence of great economic fluctuations through "sudden application of the brake." In the 1953-1978 period, there was an average annual increase of 7.9 percent in total social output value. The rate of growth could not be considered slow. In the peak year, there was an increase of 32.7 percent. There was even a drop of 33.5 percent in the worst year. This is a difference of plus 24.8 percent and minus 41.4 percent respectively, as far as the average growth rate was concerned. In the 1979-1986 period, there was an average annual increase of 10.1 percent in total social output value. There was an increase of 16.5 percent in the peak year and an increase of 4.6 percent in the nadir year. This is a difference of plus 6.4 percent and minus 5.5 percent respectively, as far as the average growth rate was concerned. This shows that the steadiness of our national economic growth in the past 8 years has greatly improved.

Improvement of overall macroeconomic results are spurred. Poor economic performance is a natural product of the rigid economic system. The economic reform has brought about the beginning of a change for the better in the situation. True, judging only from the profit-tax rate on every 100 yuan in output value of state industrial enterprises (in terms of current prices) within the budget, which was 25.6 percent in 1978 and 23.7 percent in 1986, there seems to have been a drop in the economic results in the past few years. However, it should be noted not many factors exist here that cannot be compared, such as a rise in interest rates; an increase in depreciation rates; higher prices for agricultural products and raw materials; an increase in workers' wages, bonuses, allowances, and other benefits; and so forth. Leaving alone only the two factors of depreciation rates and interest rates, the profit-tax rate on output value in 1986 was raised 25.4 percent, which was basically on a par with that in 1978. With other factors taken into account, we can see that there is still an improvement in results over 1978. In addition, the percentage that total social output (national income) accounts for in total social input (fixed social assets plus liquid funds plus pay for workers) was 34.4 percent in 1978 and 36.5 percent in 1986, an increase of 2 percentage points. The comprehensive energy consumption coefficient showed a drop of about 30 percent in 1986 compared with 1978. With such a factor as an increase in imported rolled steel and nonferrous metals, and other imports taken into account, there was also a drop of about 28 percent. These indexes all point to an increase in macroeconomic results. Of course, it should also be admitted that economic results in various fields are still quite poor. This must be given adequate attention. But there has definitely been a change in the situation of economic results not at a high level under the original system. Moreover, only given continuous deepening of the reform can we basically stimulate the continuous improvement of economic results.

The country's economic strength is boosted. Based on comparable prices, the GNP in 1986 showed an increase of 102 percent over 1978, national income an increase of 95 percent, and national revenue an increase of 98 percent. Extra-budgetary funds held by departments, areas, and enterprises rose 3.8 times. Production levels of electric power, steel, coal, and petroleum respectively rose from seventh, fifth, third, and eighth places in the world to fifth, fourth, second, and fifth.

Gradual improvement of urban and rural residents' life is stimulated. In the past, under the rigid economic system, while seriously hindering the development of productivity, the "big rice pot" and "iron rice bowl" left the people of urban and rural areas long deprived of proper improvement in their life. Reform of 8 years has put an end to such a situation of stagnation, bringing about great improvement in the living standards of the people of urban and rural areas.

In 1986, rural per capita net income rose to 424 yuan from 134 yuan in 1978. The urban residents' income in terms of living expenses rose from 316 yuan to 828 yuan. After an adjustment for the price factor, there were increases of 160 percent and 80-plus percent, respectively. Meanwhile, in 8 years, work was arranged for about 60 million township and town residents. The rate of people waiting for work dropped from 5.3 percent to 2 percent. In the countryside, 70 million agricultural workers switched to nonagricultural departments. Generally speaking, the problem of keeping clothed and fed of 1 billion people has basically been solved. A start is being made in the transition to the stage of being relatively well off.

#### Problems That Need To Be Solved in Deepening Reform

While fully affirming the great achievements scored in 8 years of reform, we have also come to deeply realize that economic reform is a very complicated systemic process. There is also a lack of relatively perfect experiences for reference. Therefore, some problems inevitably exist. It should especially be noted that given the vastness of our country, its less than strong base, and its low capacity for absorbing the risks of reform, social production was quite undeveloped. The quality of cadres at various levels in charge of the modern economy is not good. Moreover, their awareness of some fundamental problems could not possibly be relatively unified at the very start. Therefore, in the initial stage of reform, it was impossible to first formulate an overall detailed plan with all things linked as parts of a whole and to enforce it in an overall manner. Nor was it possible to achieve standardized control and management overnight in line with the demands of a modern developed commodity economy. Reform could only start with the most fundamental links, such as enlivening enterprises, arousing the enthusiasm of basic-level economic units and workers, and so forth--with the continuous summation of experiences and unification of thinking and awareness in a steady and exploratory advance with attention to coordinating and linking things up.

Many contradictions and problems remain in reform. These are mainly the following:

The relationship between reform and development has not been handled satisfactorily enough. On the one hand, given the too-large scale of construction and too-tight control over economic life, very little leverage has been left for reform. On the other hand, the road has still not been made clear enough concerning how reform helps maintain an economic balance and stimulate the rationalization of the structure.

There is incompatibility between macroeconomic control and microeconomic liberalization. With the enlargement of decisionmaking power for areas and enterprises, extra-budgetary funds have increased. But a necessary system to guide the use of such funds has not been established. The actual average increase in wages in given years has exceeded the rate of growth of labor productivity. There is still a lack of rational and effective means to control investment in overall social fixed assets and the growth of consumption funds.

We have an inadequate understanding of the protracted, arduous, and complicated nature of reform. There has been too hasty a demand for the achievement of goals in establishing the base for a new economic system. Not enough consideration has been given to the side effects that reform measures are likely to produce on the economic environment when first introduced, with too big strides taken. In some reforms, there are also such problems as "applying the same fixed standard," trying to get things done all at once, the changeability of concrete policies, and so on.

Despite the existence of problems of all kinds in the reform in the past few years, experience has shown that the direction of our reform and the road followed are all correct and that there are quite marked achievements. Existing problems can only be solved through further deepening of the reform. We should not and cannot retrace the old path of being cut off from the world, exercising unified control over income and expenses, letting wages rise and commodity prices freeze up, practicing egalitarianism, sharing equally in the big rice pot, providing supplies against the presentation of coupons, and leading a tough life.

In studying the reform in the days ahead, we must correctly sum up and learn from experiences in the past few years. We must also proceed from our socialist economic development at its present stage and the realities of reform. Socialist development in our country is still in the initial stage of socialism. The level of productivity is low and development is uneven. Economic development is being placed in the stage of a traditional economy transforming in the direction of a modern economy. Various economic patterns have changed at a relatively quick pace. The economic reform has entered the stage of two systems and two mechanisms going hand in hand. Contradictions, clashes, and loopholes are still plentiful. Therefore, given the upholding of the fundamental socialist system as a prerequisite, our reform must adhere to the direction of energetically developing the socialist commodity economy, in

order to help the development of socialist mass production. Reform must be closely combined with construction to stimulate the rational readjustment of the economic pattern and the steady growth of the economy. Reform must be further deepened in an effort to put a relatively quick end to the state of new and old systems being locked in confrontation. Meanwhile, we must also take into full account the complicated and arduous nature of reform and avoid rushing to achieve instant results.

In light of the experience in reform in the past few years, we must further deepen the reform. Concerning several tough problems having a direct bearing on the process of reform and its future, we must make a serious study to seek a solution and achieve a breakthrough. The several knotty problems are:

1) How to properly handle the reform of the mechanism for enterprise operation; 2) how to gradually accomplish the reform of the pricing system and price control system; 3) how to properly handle the reform of the investment systems; 4) how to proceed with the reform of the government's role in running the economy. For space reasons, this article is not going to dwell on how to solve these problems. But it is to be pointed out that these tough problems can be solved in a proper way. After we overcome these problems, the new system can play a dominant role in the economic field, enabling us to basically realize the medium-term goal of our reform.

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## EIGHT MAYORS SUPPORT URBAN REFORM POLICY

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[Report: "Eight Mayors Call for Reform"]

[Text] In order to know the real situation in the current economic structural reform, the theoretical workers of the Chinese Research Institute for the Restructuring of the Economy recently spent 1 month conducting on-the-spot investigation in eight cities, namely, Shenyang, Dandong, Guangzhou, Chongqing, Wuhan, Shanghai, Shijiazhuang, and Beijing.

After 1 month of investigation, the theoretical workers have one impression in common: Due to the changes brought by the reform in the appearance of the cities, to the vitality given by the reform to enterprises, and to the practical benefits brought to the citizens by the reform, the reform has struck root in the hearts of the people in these cities.

In the face of various ideas in the preceding stage, while conducting the struggle against bourgeois liberalization, these cities did not stop but pushed reform forward more resolutely. The mayors, who stood in the first line of organizing and carrying out the reform, without any hesitation and free from any interference, resolutely supported the general policy of the CPC Central Committee on reform, opening up, and invigoration. Meanwhile, they ponder and study the reform more deeply.

During the investigation, the mayors sharply criticized the old irrational system that "whipped a hardworking ox that is mulling grain which allowed the lazy one to eat grass in the sun"; stressed that "without reform, there would be no way out," and "only by carrying out reform and opening up to the outside world can we give full play to our abilities and skills"; and spoke glowingly and freely of the gratifying situation in which "the reform has given vitality to enterprises and urban economy" and "brought practical benefit to the masses." They also seriously pointed out that "it is necessary to treat today's reform with a spirit of hard working and plain living," and "to further build socialism that has advantages and is attractive."

## 1. Socialism Must Carry Out Reform; There Will Be No Way Out Without Reform

China has practised socialism for more than 30 years. But socialism of this kind is formed under special conditions. While such socialism has advantages that could not be matched by the old society, it still has quite a few defects.

Shenyang Mayor Wu Disheng and Dandong Vice Mayor Zhang Zhiqi pointed out that the egalitarianism, the practice of "eating from the same big pot," and the overstaffing of units over the past decades meant that those who did more could not gain more, those who did less did not gain less, and those who did nothing also had their gains. People in our society have thus become lazier and lazier and have no incentive to create wealth. They asked: if this situation is not changed, how can our country become powerful and people get rich?

Indeed, we have not yet got rid of the socialism of poverty.

As Beijing Mayor Chen Xitong said: During the late period of the "Cultural Revolution," our national economy was on the verge of collapse. What a peasant gained for a whole day's labor would only buy an ice-lolly; cities were extremely short of meat, eggs, and vegetables; people's wages had increased only a little in 20 or 30 years; and their housing areas became smaller and smaller. This being the case, how could there not be a crisis of confidence in the party's leadership, socialism, and Marxism-Leninism? Great changes have taken place since the 3d Plenary Session of the 11th CPC Central Committee. However, our social productive force is still underdeveloped; our economy is backward; our material and spiritual life is not rich and colorful; and the advantages of socialism have not been fully displayed. So some people envy developed capitalism and ideas of bourgeois liberalization find support among the people. If this situation is not changed, how long can people support our party's leadership and how can they accept socialism of this kind? In fact, this type of socialism is unqualified. Without reform, such socialism will have no foundation; the party's leading position will be weakened; and bourgeois liberalization will become rampant. Therefore, we must remove "leftist" obstacles, overcome rightist interference, resolutely conduct reform, build socialism with Chinese characteristics, develop productive force in a better way, and make the country powerful and the people rich.

## 2. Through Reform, We Must Further Build Socialism Which Has Advantages and Is Attractive

Without conducting a thorough reform of the existing structure, socialism will have no way out. Then, what kind of socialism built through reform is attractive to the people and what advantages does it have over capitalism? In China, this is socialism with Chinese characteristics.

Chen Xitong, Wu Disheng, and Chongqing Mayor Xiao Yang held that we must, through the reform, build a socialist system under which every individual,

every grassroots economic unit, and every social unit can fully exploit its enthusiasm, initiative, and creativity. Under this system, every one seeks development, does his best to create wealth and civilization, and participates in democracy, so social productive force can be developed to the maximum.

Mayor Chen Xitong said: How should we deepen the reform? The answer is: "Reforms should not depart from their original aim." The "original aim" is to arouse the enthusiasm of operators and producers. Laborers are the main body of production and direct creators of social wealth, and play a decisive role in various elements in production. In the final analysis, the vitality of an enterprise is a question of people's enthusiasm. Both the positive and negative experiences in our socialist construction in the 30-odd years since the founding of the PRC, and the practice of reform over the past few years in particular, have fully proved that if our policies and measures aim at arousing and protecting laborers' enthusiasm, they will achieve remarkable economic results and social benefits. Contrary, if people's enthusiasm is constrained, production will decrease, economic development will slow down, and the situation will stagnate.

Mayor Wu Disheng said: Invigorating enterprise is the central link in reform, and the sign of invigorating enterprises is not merely doubling or quadrupling an enterprise's output value in 1 or several years, the essential thing is to fully exploit the production elements of the enterprise, and particularly the enthusiasm of all workers, so as to let each one display his own ability and let all things serve their proper purpose.

Mayor Xiao Yang said: Reform means further reflection of the party's mass line in the new period. Why should decisionmaking power be given to enterprises? The essence of this problem is to hand over all powers and work in enterprise management, which were held and handled by a handful of people in all departments at high levels in the past, the thousands upon thousands of enterprises, so as to arouse their enthusiasm and the enthusiasm of operators and producers.

In the final analysis, we must, through the reform, build socialist commodity economy so as to bring into full play the enthusiasm, initiative, and creativity of the whole society, to fully develop social productive force, and to build socialism with a high degree of civilization, development, and democracy. Only this kind of socialism with Chinese characteristics is advantageous and attractive.

### 3. Reform Has Preliminarily Displayed the Advantages of Socialism With Chinese Characteristics

After conducting reform for 8 years, we have taken a firm step on the road of building socialism with Chinese characteristics. Great changes have taken place in all fields in the country, and the eight cities have particularly made rapid development.

In view of various opinions in society on the economic and reform situation in the preceding period, Shanghai Mayor Jiang Zemin said bluntly: "I hold that both the economic and reform situations are relatively good on the whole."

Wuhan Vice Mayor Wang Mingquan said vividly: After opening its door and enlivening circulation, not only has Wuhan invigorated its urban economy, but people have also found their daily lives more convenient. For example, when a couple of young people want to get married, they can buy all the household articles for their new family from one end to the other of a new commercial street. Shijiazhuang Mayor Wang Baohua said: The establishment of the market of means of production has not only invigorated enterprises, but has also stopped up backdoors, rectified malpractices, and promoted reform in government organs and material supply departments.

Chongqing Mayor Xiao Yang made a comparison between development in Chongqing and that in Hong Kong. He said: Chongqing is a city chosen by the central leadership in 1983 for conducting experiments in comprehensive structural reform. The composite index of the city's GNP, national income, financial income and individual income in 1986 increased by 70 percent as compared with that in 1982. Hong Kong's economy quadrupled in the 15 years from 1965 to 1980. According to its growth rate in the above 4 years, Chongqing's economy would increase by more than 450 percent in 15 years, higher than quadruplication. In other words, after conducting comprehensive structural reform, Chongqing's economic growth rate was higher than Hong Kong's economic growth rate during its "golden age of development." This indicates that the preliminary reform has displayed the advantages of socialism. Provided that we continue to push the reform forward, its advantages will be further displayed. Indeed, comrades who visited Chongqing several years ago would be inspired if they visited Chongqing again today. Row upon row of buildings, newly built and modified factories, hospitals, gymnasiums, bridges, and roads, and many construction sites, all give people an impression of a modernized city that is developing vigorously and rapidly. The new appearance of today's Chongqing may stun those KMT veterans now in Taiwan who are familiar with the "wartime capital" of those years.

Of course, as the mayors said, all these developments are great as compared with that before the reform. However, compared with our socialist potential, the current preliminary reform has only displayed some initial results, and it has great potential. Provided that we carry on the reform and give full play to our potential, we may achieve unimaginably greater results.

#### 4. Reform Has Struct Root in the Hearts of the People, Reform Has Become Irresistible

People who have some intuitive knowledge would feel that if we fail to resolutely and thoroughly rectify the defects of the old system, our socialism will have no future. And the initial results brought by the preliminary reform have given people hope and made those who have gained practical benefits from the reform equate the reform with their own needs. They have

also made the mayors, who personally organize and implement the reform, treat the reform as the most important policy in their administrations.

Around "May Day," some theoretical workers of the Chinese Research Institute for the Restructuring of the Economy, together with Mayor Xiao Yang, visited a worker family who had just moved into a new house. The 6 members of 3 generations in this family shared a room for more than 20 years. The son had to sleep on the floor for 2 years after he got married. Early this year, they moved into a new flat with 3 bedrooms and 1 sitting and dining room that was built by the city authorities. The grandmother joyfully told the mayor: "The policy of the CPC Central Committee is good, but I hope it will never change." Her son and daughter-in-law said: "In the past, we worked hard, but did not see any hope. Now we work hard and see not only our country becoming prosperous and powerful, but also changes in our own life." Mayor Xiao Yang then said sincerely: If we do not carry on the reform and construction, we will let the people of Chongqing down and I myself cannot act as the mayor any longer. The people will condemn me and remove me from my post.

In Shenyang, the theoretical workers of the research institute attended a forum of factory managers sponsored by Wu Disheng. The managers demanded that in instituting the manager responsibility system and establishing new operational mechanism in enterprises, the city government not only issue document but also mobilize and guide people in all fields to support reform of the operational mechanism in enterprises. They said that the mayor must offer some effective measures, otherwise they would find it very difficult to carry on. Mayor Wu said with a smile: If the city government fails to adopt further measures to promote the reform, I will be unable to justify myself to the managers.

As Guangzhou started the reform before other cities, people in that city have adapted their ideas not only to the open market and open prices, but also to various management forms and business styles resulting from enlivening the economy, and to competition, employment opportunity, and widened gaps in people's income. These problems, which cause some doubts and grievances in other cities, have been accepted by people in Guangzhou. Guangzhou's mayor now faces pressure from society and the masses calling for reforming the old employment system and old housing system. Guangzhou Vice Mayor Yang Ziyuan said: These reforms will be more difficult. But if we do not carry them out, the city government will have a hard time.

The mayors all said that not only they subjectively believe that reform is the only way for their cities to become more prosperous and developed, but they objectively cannot step down and stop. They have to resolutely and steadily push forward the reform, otherwise, they will find it difficult to continue their work.

Wuhan Mayor Zhao Baojiang said with pride and enthusiasm: Reform has struck root in the hearts of the people and it has become an irresistible trend like the eastward flow of the Chang Jiang.

The Shenyang party committee and government are preparing for new measures to enliven enterprises; Dandong City hopes that the central leadership will further conduct structural reform to consolidate the existing results; Guangzhou City is studying new measures on price reform; Chongqing is planning to institute the contracted management responsibility system in more enterprises; Wuhan is planning to reform the communications system; Shanghai is expanding the financial structural reform; Shijiazhuang is considering setting up production element markets in a systematic way; and Beijing is promoting various enterprise management forms. All eight cities are actively making progress and steadily promoting reform in their cities.

##### 5. Keep Sober-Minded, Practically, and Steadily Push Forward Reform

When the theoretical workers of the Chinese Research Institute for the Restructuring of the Economy visited the eight cities, the cities were reviewing and summing up the reform over the past 8 years. By reviewing and summing up the reform, the cities now have a better understanding of the significance, achievement, experience, target, and orientation of the reform. On the basis of this understanding, the cities have formed more mature guiding thinking and firmer belief. In summary, the mayors held:

The reform is a deep social revolution of self-negation and self-improvement of China's socialist system. It will solve many problems not only the problem of price and circulation, the problem of operational mechanism in enterprises, and various market problems, but also the problem of the management system of the state assets, the problem of the relationship between the central and local authorities, and the problem of government organs and macroeconomic management system. The reform must not only solve the problem of the economic structure and the political structure, but must also transform social ideas. It involves several readjustments of all social stratum, trades, occupations, enterprises, and individual rights and interests and the renewal of people's habits, behavior mode, and ideas. The reform is a great exploration given that we lack experience and conditions, and we will unavoidably meet many problems, and make mistakes in our work. Therefore, we must take into account the difficulties, obstacles, and problems in the reform, and must fully understand the protractedness, arduousness, and complexity of the reform. As seen from the process of the reform, the current reform is only preliminary, and no reform is plain sailing. Every reform must undergo ups and downs and we should not expect the reform to be simple and ideal. Future reforms will be tougher. Therefore, we must be well prepared to fight a fierce and protracted battle. Thus, we must always remain sober-minded, accurately evaluate and master the situation, neither be frightened by temporary problems and difficulties, nor be carried away by temporary victory and success, and practically and steadily push forward the reform. In the long run, the reform will fully display the advantage of socialism. However, we are still in the initial stage of socialism, the reform is preliminary, the results achieved in the reform are initial, and the reform cannot bring too many practical benefits to the society and people all at once. The benefits brought by the reform are gradual and are achieved with strenuous efforts and at some cost. Therefore, we must curtail our increasing desire, work hard, live a plain life, overcome the twists in reform, and develop the reform healthily and deeply. Only thus, can people gain increasing benefits brought by the reform and can they build socialism with Chinese characteristics which can fully display its advantages and its attraction.

## REFORM OF INDUSTRIAL AND COMMERCIAL BANK DISCUSSED

Shijiazhuang HEBEI JINGHI BAO in Chinese 25 Apr 87 p 2

[Article by Meng Lianrui [1322 6647 3843], Manager, Industrial and Commercial Bank, Shijiazhuang Center Subbranch: "Tentative Probe Into the Transformation of the Industrial and Commercial Bank Into An Enterprise"]

[Text] Propelled by Shijiazhuang's aggressive efforts to restructure the economic system, the Shijiazhuang's Industrial and Commercial Bank has since 1984 explored new ideas and taken cautious steps and made significant progress in restructuring the financial system. This year the bank was designated one of the nation's experimental units for financial reform. Our urgent task is to find a way to further reform Shijiazhuang's Industrial and Commercial Bank based on the Seventh 5-Year Plan proposals which call for the enterprise-like operations of the specialized banks.

The transformation of specialized banks into enterprise-like operations is imperative: in the past, there was only one bank, the People's Bank, which was in the business of lending money, and had the task of supervising the national economy at the same time, and in a commodity economy, the bank essentially operated on administrative principles. Specialized banks are set up as a result of the restructuring of the economic system, and are clearly operating much like enterprises, and this is in accordance with economic mechanisms. In addition, the development of the economic reforms necessitates the prompt establishment of an indirect control mechanism to enhance macroeconomic control and at the same time stimulate the financial sector at the microeconomic level and, objectively, this also requires the specialized banks to be operated as enterprises. However, the many implications and ramifications of the enterprise-like operations of the banks are yet to be defined, and there are many deficiencies in the internal and external conditions: all these problems remain to be worked out. To operate banks as enterprises means that banks should be relatively independent financial enterprises capable of raising their own funds, and extending loans autonomously; they must seek profit, take risks, be responsible for their own profit and losses, be able to develop new business and grow without outside help, and they must integrate responsibilities, authority and profit: the objective is to invigorate the banks, stimulate finance and banking, and expand operations, and on the premise of enhancing macroeconomic controls, gather funds vigorously to support the enlivening of the large and medium-sized enterprises, and promote the continuous, steady, and balanced growth of the national economy.

Where do we begin, and how do we further, the process of operating specialized banks as enterprises? Based on the overall needs of the restructuring of the economic system and on the present state of Shijiazhuang's Industrial and Commercial Bank, the general plan is to expand operations, emphasize service, strengthen management, and improve efficiency; specifically, we must grasp the core issue, achieve "three breakthroughs" and establish "three new features," and explore three areas:

The "core" means the economic responsibility system: first, establish a comprehensive set of evaluation norms which focuses on funds and pursues the objective of increasing economic results, for example, by monitoring such indices as the change in the level of savings, the rate of fund utilization, the ratio of fund losses, cost ratios, expenditure ratio, and changes in profit rates. Second, establish a business responsibility system: establish responsibility systems in the bank's asset operations, liability operations, and intermediary operations in relation to deposits, loans, settlement, fund transfers, and economic accounting. Third, establish a system of personal responsibility, and gradually implement a bank manager responsibility system, as well as a system which specifies his objectives during the tenure of the bank manager.

"The three breakthroughs" pertain to the capital market, forms of credit, and credit instruments: upon successfully establishing a market for short-term lending and borrowing, we intend to take a couple more steps: establish an inter-provincial as well as intra-provincial fund lending and borrowing network, and build an interlocked system to promote the horizontal flow of funds, and vigorously, but cautiously, launch new businesses offering different forms of financial assets such as stocks and bonds, and handle the transfer of securities, trusts, and bill discounting, and eventually establish a long term capital market. At the same time, we should use a diversity of credit formats and measures to gather and utilize funds skillfully to stimulate the economy. We should introduce different types of savings, add new banking outlets, extend business hour to make it more convenient for people to deposit and withdraw money, and gather more of the idle funds in society to enhance our financial capability. We should also introduce buyer's credit, seller's credit, enterprise co-financing, collateral loans, acceptances, discounting and rediscounting, and other business. We should establish a set of evaluation norm to assess the use of fund by enterprises, and adopt flexible interest rates to get more benefits out of the funds, and reduce risks. In the near future, we should start draft settlement, money order, cashier's checks, travellers' checks, electronic transfers, and other new services.

The "three new features" refer to new service attitude, better service, and new services: these are the marks of being civilized, and are also the intrinsic requirements of the enterprise-like operation of the banks under the restructuring of the financial system. The banks must take the initiative to be cordial, sincere, and considerate, and extend convenient and helpful services to their customers. We must reinforce education in professional ethics, and establish professional discipline; set up competitions to promote both helpful and quality services, and set up a "dual excellence" award fund. We must utilize modern tools, and in addition to using computers to handle outside business, gradually extend their use to keeping track of saving accounts to facilitate bookkeeping.

The three areas which need further explorations are: financial theories, how to operate banks as enterprises, and the separation of [ownership and operation] rights. In probing new financial theories we must base our studies on the overall concept of the restructuring of the economic system and on the theory of socialist planned commodity economy, and integrate those aspects with actual problems encountered during reforms. We also need to explore ways to further the cause, and broaden the scope, of the enterprise-like operations of the banks under the present conditions. The separation of rights refer to the separation of ownership rights and operation rights. We should use the savings banks as experimental units to explore the depth and the scope of the contract system, and by learning from their experience we can implement such contract system in the various department of the banks, and open doors for the furthering of the reform process.

The restructuring of the specialized banks must be coordinated with the restructuring of the economic system; it should neither surge ahead nor fall behind. Since the Third Plenum of the 11th Party Central Committee, the banks have implemented reforms in many areas, and have obtained good preliminary results, but they still cannot meet the needs of the restructuring of the economic system; therefore, they must speed up the process, devise short-term objectives and long-term plans, so that there is an overall plan which can be implemented step by step, one program after another: the goal is to achieve practical results, and contribute toward the continuous, steady, and harmonious development of the national economy.

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## SHANGHAI UNIFIES MONEY MARKET ACTIVITIES

Shanghai WEN HUI BAO in Chinese 13 May 87 p 1

[Article by Qin Hengji [4440 1854 7535]: "Enhance the Central Bank's Financial Macroeconomic Control: Shanghai Establishes A Unified Money Market: A Market Jointly Set Up by the Various Specialized Banks Based In Shanghai But With Nationwide Impact"]

[Text] According to reports obtained from the Shanghai branch of the People's Bank of China, Shanghai will, in the near future, establish a municipal unified money market to coordinate all market operations such as short-term lending and borrowing, bills discounting, securities exchange, and foreign exchange regulation, and to enhance the central bank's financial macroeconomic control, and develop and perfect the financial market mechanisms.

According to reports, this money market may turn out to be the country's largest financial market: it will be set up jointly by Shanghai's specialized banks and other financial institutions which participate voluntarily, based on equality and mutual benefits. City-level banks and financial institutions in other provinces interested in participating in Shanghai's money market trading activities may also become members upon approval. Shanghai's money market is based in Shanghai but will have nationwide impact, and it lays a solid foundation for Shanghai's gradual rise to becoming the financial center of the Shanghai Economic Zone, and eventually, of the whole nation.

Concurrently, the Shanghai Money Market Coordination Committee will be established to facilitate the smooth operations of Shanghai's money market; the committee will be made up of representatives elected by principal members of the money market, and chaired by a representative from the Shanghai branch of the People's Bank. Several work groups will be set up under the coordination committee: there will be a short-term money market operations section, security exchange section, foreign exchange regulations section, and others. At present there are eight over-the-counter securities exchange sites, each affiliated with its respective financial institution. According to informed sources, when conditions are ripe, a stock exchange will be established using these exchange sites as bases, and a contingent of stock-brokers will be recruited.

The establishment of the unified money market represents an important step in Shanghai's effort to speed up the financial structural reform this year; it is also a major step toward enlivening and strengthening Shanghai's financial market and establishing the municipality as a major financial center.

## COOPERATIVE LINKS INVIGORATE SOUTHWEST ECONOMY

OW031145 Beijing XINHUA in English 1024 GMT 3 Jun 87

[Text] Chengdu, 3 June (XINHUA)--Expanding regional and inter-provincial ties between business are helping provinces and regions in southwest China make better use of their funds, materials, technology and personnel, and boost their economies.

Enterprises in the provinces of Sichuan, Yunnan, Guizhou and the Guangxi Zhaung Autonomous Region have strengthened cooperation among themselves and between developed coastal areas over the past 3 years.

Rich in natural resources but with under-developed economies and technology and poor transportation services, the southwest provinces and regions began working together in 1984. They have helped to break down barriers at the departmental and regional levels in a bid to invigorate their economic development.

More than 5,000 economic and technological agreements have been made between businesses in the four provinces and regions. More than 50 percent of the agreements have been implemented.

Of the 51 southwest paper making mills under the Chongqing paper making corporation group, 19 of them have undergone technical upgrading and achieved better economic results since the group was founded.

Now there are 12 corporation groups in southwest China.

The provinces and regions have also signed 100 contracts to jointly tap their natural resources. Guangxi has raised 100 million yuan to launch a large chemical fertilizer plant with Sichuan while the Yi Autonomous Prefecture of Liangshan in Sichuan Province has invested 800,000 yuan to jointly open a lead and zinc mine with Yunnan Province's Qiaojia County.

The cooperative ties have also made it possible for military enterprises to assist their civilian counterparts. Sichuan ranks first in the country with 90 military enterprises, which have advanced equipment and competent personnel.

By developing a research institute under the Ministry of the Nuclear Industry, the Sichuan Petroleum Administration has successfully developed a geological survey instrument at a cost of 6,000 yuan. It had planned to allocate 5 million yuan for the production of the instrument.

To make rational use of funds, the southwest provinces and regions have set up 74 monetary markets since 1986, which have lent and borrowed 6.3 billion yuan.

To speed up their cooperation, the provinces and regions have also linked their border highways.

Meanwhile, they have accelerated cooperation with coastal areas, particularly with Shanghai. They have signed 1,000 cooperative contracts with the city since 1984.

Guizhou's biggest iron and steel enterprise--the Shuicheng Iron and Steel Works last year produced 3 times as much steel as in 1985 thanks to the help of 20 technicians invited from Shanghai.

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CSO: 4020/222

## ZHAO EUROPEAN VISIT SEEN AS BOOST FOR BARTER TRADE

HK171328 Beijing CHINA DAILY (BUSINESS WEEKLY supplement) in English 14 Jun 87  
p 1

[By staff reporter Da Chansong]

[Text] China national Textile Import and Export Corporation is expecting more active barter trade with the five East European countries, following Chinese Premier Zhao Ziyang's current visits to Poland, the German Democratic Republic, Czechoslovakia, Hungary and Bulgaria.

The corporation, one of China's major exporters of textile products to the United States, Japan, and Western Europe, is also a main force in barter trade, which is so far the only trade form between China and the five nations, according to Guo Lian, deputy general manager of the Agreement Trade Division of the corporation.

Last year, export to the five countries accounted for 7 percent of the corporation's total. Its products ranged from raw cotton and cloth to finished products such as garments and knitwear. China imports from the five countries machinery and electronics products, hardware, chemical products, rolled steel and some primary goods. China also exported light industrial products, handicrafts, native and animal byproducts, cereal, edible oil and foodstuffs, and other semi-finished products.

Textile exports to the five countries have maintained a steady increase, Guo told BUSINESS WEEKLY. In 1985, the corporation exported 110 million to Poland, \$72 million to Czechoslovakia and \$43 million to Hungary, and the figures reached \$130 million, \$80 million and \$48 million respectively in 1986. This year, the export volume will be maintained or increased, he added.

"Barter trade between China and the five nations has great prospects," Guo said, "It helps both sides compensate for present foreign currency shortages and balance bilateral trade."

Other forms of foreign trade may also be adopted in the future if both sides consider it necessary, he said. Barter trade between China and the five nations is controlled by the governments. It is realized through set quotas for imports and exports worked out according to trade agreements between the two sides. They settle accounts through the state banks of each country.

For up to 30 years, the textile corporation and more than 15 other national import and export corporations directly under the Ministry of Foreign Economic Relations and Trade have been qualified to do barter trade with these countries. Other provincial branch companies have no direct trade deals with them, said Guo.

However, in order to expand bilateral trade, the Ministry of Foreign Economic relations and trade has also authorized some local trading companies to export products to these countries since 1984, on condition that their exports will not interfere with the business of the national corporations. So far, around one trading corporation in each province nationwide has gained such rights, but they are only goods suppliers and only the national corporations can sign export contracts.

But barter trade between China and the five nations is becoming more difficult, especially for the textile sector, said Guo.

The increasingly Westernized socialist countries want more fashionable clothes with a wider variety of designs, colours and patterns. Whereas in earlier years, China exported the same types, patterns and colours for several years without changing. The quality of the products and delivery times demanded are more strict and specific.

"Facing this challenge, we have to select better-managed factories to produce export products," said Guo, "We will also improve on pre and post-sale services as claims for damages have been increasing in recent years for areas like shipping documents, packaging, quality, and time of delivery, he said. Overall, however, trade between China and the five nations has increased rapidly. The total trade value this year is expected to reach 3.9 billion Swiss francs (\$2.6 billion), more than double the figure in 1984. Both sides have set up governmental commissions and hold meetings each year to discuss trade and economic and technical cooperation. In 1985, China signed a long-term trade agreement for 1986-90 with the five countries, for a total trade value of 20 billion Swiss francs (\$13.3 billion).

Apart from barter trade, China has also developed technical cooperation with the five countries. It has introduced some advanced technology and equipment mainly involving the machinery, automotive, electronics, food processing, textile and light industries, including a heavy duty truck production line from Czechoslovakia; refrigerated van design, manufacturing of combine harvesters from the German Democratic Republic; and fork lift equipment from Bulgaria.

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CSO: 4020/222

## USSR, CHINA COOPERATE ON COAL PROCESSING EQUIPMENT

LD101458 Moscow TASS in English 1422 GMT 10 Jun 87

[Text] Kharkov 10 June TASS--Kharkov specialists have designed a project of the Qixing Coal dressing factory which is to be built in Heilongjiang (the People's Republic of China). The annual capacity of the new enterprise will be almost 1 million and 1/2 tons of coke and power concentrate used in smelting metal and also for thermal electric power plants and railway transport.

"In the recent time we prepared technical documentation for another coal dressing factory of the People's Republic of China--Jenyang, which is already under construction in the Shengxi [name as received] Province," said director of the Mine and Dressing Factory Design Institute Viktor Ukhkalov.

Important designs were adopted jointly with Chinese specialists from the Shenyang Coal Design Institute. The new factories will receive from the USSR the main equipment for dressing and drying products--separators, centrifuges, flotation machines, dedusters, electrical units and automatic equipment. the industry of the People's Republic of China will provide these enterprises with transport conveyors, ventilation units, pumps, and filter presses.

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## TRADE DELEGATION LEAVES FOR INDONESIA TO JOIN FAIR

BK171330 Beijing International Service in Indonesian 0830 GMT 17 Jun 87

[Text] A delegation of the China Council for the Promotion of International Trade [CCPIT], led by CCPIT Chairman Jia Shi, today left Beijing for Indonesia at the invitation of Dr Sukamdani S. Gitosarjono, chairman of the Indonesian Chamber of Commerce and industry [Kadin].

During his visit to Indonesia, Jia Shi is scheduled to attend the opening ceremony of the Jakarta Fair and launch the Chinese Pavilion in the Jakarta Fair. Jia Shi will also hold talks with Kadin officials on improving cooperation between the CCPI and Kadin as well as find a solution to the issue of inspection of commodity goods in the Sino-Indonesian direct trade.

The signing of memorandum of understanding on direct trade by the CCPIT and Kadin in July in 1985 marked a normalization of trade and economic relations between the PRC and Indonesia. According to the statistics released by the PRC side, the total value of the Sino-Indonesian trade in 1986 stood at \$282 million, or a 261-percent increase from the 1985 figures.

The PRC will participate in the Jakarta Fair for the first time in 32 years and the Chinese Pavilion will occupy a 1,600-square-meter area. the commodity goods that the PRC will exhibit include metallic, mining, metallurgical, and chemical industries products, machineries, spare parts, measurement equipment, agricultural machines, medical equipment and medicine, and food and beverages.

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## GREEK DELEGATION LEAVES FOR BEIJING TRADE TALKS

OW192034 Beijing XINHUA in English 1839 19 Jun 87

[Text] Athens, 19 June (XINHUA)--A delegation including about 20 Greek entrepreneurs left Athens today for Beijing for talks on trade and cooperation between China and Greece.

Led by National Economy Undersecretary Yannos Papantoniou, [spelling of name as received] the Greek delegation will take part in the first session of the Sino-Greek Commission for Economic, Industrial and Technological Cooperation.

The joint commission was established under an economic and technological cooperation agreement between the two countries signed in 1983.

The session will review progress made in industrial and agricultural cooperation following the exchange of visits by the premiers of the two nations last year, National Economy Ministry officials said.

The Greek delegation will also discuss with Chinese officials ways to increase trade volume. Last year, Greece and China traded goods worth 80 million U.S. dollars.

During their week-long stay in China, the Greek delegation will try to promote exports of Greek products to China, including sultana raisins, tobacco, fertilizers, textile products, food-processing machinery and ores, according to the Greek officials.

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## FOREIGN ECONOMIC RELATIONS STRATEGIES OUTLINED

HK210611 Beijing QUNYAN in Chinese No 3, 7 Mar 87 pp 11, 31-36

[Article by Tao Dayong (7118 1129 6997): "China's Strategy for Developing Foreign Economic Relations"]

[Text] I. Socialism and Opening to the Outside World

The formulation of the policy of opening to the outside world is a necessary product for our nation's economic development and it accords with the general laws of the development of society. From a historical angle, the movement from closed to open is the inevitable trend in the development of human society and the world economy. From primitive society and slave society to feudal society, the natural economy occupied the leading position, producing separated local entities and even giving rise to the situation of "people not visit even close neighbors all their lives." People passed their lives in a closed economy. Only on entering the capitalist period did a world market begin to be formed. From this time, the national economic activities of all countries began to gradually be drawn into the great net of the world market, resulting in commodity production taking on a universal or world nature. In the 19th century a unified, open world economy was finally formed. Since the beginning of the 20th century, following the development of the commodity economy and socialized large-scale production, particularly following the rise of the modern technological revolution, various countries of the world have become increasingly dependent on each other. No single country can dominate the world. The change from a national economy to an international economy has become the basic trend in man's current social development. This is because the supersonic jet airliner, communications satellites, and super-high speed electronic computers have already made the earth small to a difficult-to-envise degree.

Although it is said that the October Revolution started a new epoch in man's history, and divided the world into the two systems of socialism and capitalism, still, between the capitalist and socialist countries and between the developed and developing countries and even the economically undeveloped countries, complex trade relations and all kinds of economic relationships have developed all along. This is because the major scientific and technological revolution has brought the rapid development of social production, which has caused international economic relationships to become

closer. From the internationalization of production to the internationalization of capital, now there is even a trend towards the internationalization of economic life. Under these new historical conditions if any country, regardless of whether it is large or small, and regardless of what type of country it is, is to stand among modern nations, it must expand and strengthen its economic and technical cooperation with other countries. This is an irresistible historical trend.

From a global angle, the period since the end of the war, and especially the period since the beginning of the 1960's, can be called a period of swift development of the world's science and technology and international economic relationships. Since entering the second half of the 1920's, strengthening international economic and technical cooperation has gradually become a major trend in world economic development.

It should be said that today's world is an open world. Opening to the outside world and expanding international economic and technical interflow in order to accelerate economic development and prosperity of the country or region has become the new characteristic shown by economic evolution in today's world. Seen from the historical process of the social development of mankind, socialism is a higher social form than capitalism. Capitalism already has 300 to 400 years of history, while the birth of socialism occurred less than a century ago. Because people lack experience in socialist construction and do not have a sufficient understanding of the overall laws of economic development, in the socialist practice of many countries, some mistakes were made and setbacks were suffered in the past. Even so, the great wheel of world history is still pushing forward in the direction indicated by scientific socialism. Overall, the achievements which the various socialist countries have realized in a little over half a century, regardless of whether we speak in terms of development speed or range, have in quite a few fields exceeded the accumulated achievements of capitalism over several hundred years. We must adhere to the correct direction, to reform and opening up and, in the process of widely developing international economic interflow and cooperation, draw in all advanced and superior scientific and cultural achievements of the world in many fields and strive to make the country strong and prosperous. Through a period of arduous efforts we will finally be able to catch up with and surpass the capitalist societies in terms of productive forces, labor productivity, and the overall situation of people in their lives. At that time, the superiorities of the socialist system will be fully obvious and one after another developed socialist countries will stand lofty and firm in the world. They will then have to continue developing forward toward communism and enter a higher realm. That will be the period of "all under heaven being one family" ("all under heaven being just"). Hence, the movement from closed to open is the general trend of social development. The more progressive the society, the more open it will inevitably become. Socialism must be more open than capitalism, while communism will have to be the most open, perfect world which transcends all national boundaries. This is the historical source and theoretical basis of our socialist policy of opening to the outside world.

## II. Opening to the Outside World and Self-Reliance

Based on the above knowledge it will not be difficult for us to understand that opening to the outside world is a major Marxist policy decision in carrying out socialist construction. Since the Soviet Union, after the October Revolution, and our nation after liberation did not open to the outside world, some people ask whether it is possible to carry out socialist construction as before? It must be recognized that after World War I the Soviet Union was an "isolated island" surrounded by the imperialist powers. It could only close the main door and start the arduous pioneering work. Despite being in such a complex situation, the Soviet Union was still able to break down repeated obstacles and in a thousand-and-one ways was able to engage technical experts from abroad and draw in advanced technical equipment. During the Soviet Union's first 2 5-year plans, the capitalist world was in a serious economic depression and a stage of crisis. The Soviet Union thus used this good opportunity to draw in as many foreign funds, techniques and various types of engineering and technical personnel as possible. It quickly established a number of large backbone industries allowing the Soviet Union in a short period to change from an agricultural country to a strong industrial country, and this provided a material base for the victory in the war against fascism. In the same way, in the 1950's and 1960's our country was subject to blockades by various imperialist countries. It was absolutely impossible to open to the outside and we could only be "mainly self-reliant and strive to obtain foreign assistance as a supplement." In the 1950's we imported 156 complete sets of equipment (valued at approximately \$1.4 billion) from the Soviet Union and this laid the initial base for new China's industrialization. From the middle of the 1960's through various channels we imported from Western countries urgently needed oil industry, chemical industry, and metallurgical equipment (valued at approximately \$1.2 billion) and to a certain degree this accelerated our nation's economic construction. Thus with the door closed it is possible to carry out construction because there is, in the end, no alternative. However, it is indisputable that when construction is carried out with the doors open, the rate of development is much faster.

Some people worry and wonder when we open to the outside world and continually import foreign funds, whether socialism will change its color. Comrade Deng Xiaoping has said it well: "At the end of this century, no matter how we have opened up, the publicly-owned economy will remain the main part, and joint operations with foreigners will also be half socialist." (Footnote 1) (Speech to the Third Session of the Central Advisory Commission) Also, today's opening to the outside world is basically different from the "open door" in the past. In the history of imperialist aggression against China, the so-called "open door" policy humiliated the nation and caused it to forfeit its sovereignty. The door was blown open by the powerful guns of the big powers and under the force of unequal treaties, China's markets were surrendered to imperialist occupation and exploitation. This period has long gone and will not reoccur. The opening to the outside world we are engaging in today is based on equality and mutual interests, and involves the continual expansion and development of economic, trade and technological interflow and cooperation with various countries. We have opened the great door by ourselves of our own initiative.

All nations will respect our nation's sovereignty and no one will dare to bully and humiliate us again. Also, all foreign businessmen who engage in economic activities in our nation must respect the laws and policies promulgated by our nation. The two different types of opening up in the two different periods absolutely cannot be lumped together.

Of course, our nation's implementation of the policy of opening up to the outside world certainly does not mean that we are going to do away with self-reliance because regardless of whether one is engaged in revolution or construction, one must primarily depend on oneself. "China's affairs must be handled in accordance with China's conditions and must be handled by relying on our own strengths. Regardless of whether we speak of the past, the present, or the future, independence and self-reliance are our base."

(Footnote 2) (Deng Xiaoping: Opening speech to the 12th National Party Congress) We should keep this point firmly in mind. In the course of socialist construction we must always maintain self-reliance as the main point. Only by having a foothold on this firm base will we, in adhering to the policy of opening to the outside world, be able to widely utilize the world's strong points, take foreign things for China's use, reduce the economic disparity between our nation and the developed nations and speed the pace of the "four modernizations." It is especially true of a large country like ours with a population of 1 billion that only if we rely on our own arduous struggle will we be able to resolve the problems of food and clothing. We must also try hard to catch up so that at an early stage we can rank among the developed nations!

Therefore, opening to the outside world and self-reliance are not contradictory and are indeed complementary. It can be said that the core of the policy of opening to the outside world is to increase our nation's self-reliance capability. Our basic aim in actively developing various economic forms, establishing wide-ranging international economic relations, fully utilizing domestic and foreign resources, developing domestic and foreign and learning the skills to manage the domestic economy and develop foreign trade is to increase our capacity for self-reliance and promote the development of the national economy. We can use foreign funds and import technical equipment. It is not "importing for the sake of importing." Our imports of various types of advanced technical equipment are for the purpose of assisting the technical transformation of our nation's enterprises. After importing them, in accordance with our nation's actual situation, we should digest and absorb them and innovate, so that they are turned into "Chinese products" to promote our nation's socialist production. In this sense, the policy of opening to the outside world can truly be seen as a necessary supplement to self-reliance. We should understand it from this angle so that the secondary does not supercede the primary. Only in this way can the development strategy of opening to the outside world be established on a firm basis.

### III. The Overall Strategy in Our Nation's Current Opening to the Outside World

Actually, in today's world opening to the outside has become the basis strategy of various countries in developing their economy because through opening to the outside world, it is possible to make international use of four resources: the first is funds. Every developed country has excess capital. According to a rough estimate, there are at present over \$1,000 trillion in idle funds in the Western world urgently seeking outlets. We should, in accordance with these conditions, select and utilize the most advantageous. The second is technology. There are over 1 million types of advanced technology and patents in the world which can be used, and every year this number increases. The third is skilled personnel. At present, the problem of unemployment in the Western world is serious and all kinds of specialized skilled personnel (including those who have retired) are awaiting work. It is estimated that they must number at least 2 million and we can select and employ some of them. Of the 120,000 top-grade scientists in the United States, those of Chinese descent constitute over one-fourth. They all have Chinese ancestors and many of them think fondly of the motherland and have a sense of "falling leaves finally returning to their own roots." There is no harm in our asking more of them to come back and sending fewer students to study overseas. This will allow more skilled personnel to be trained for the state and will also allow a lot of foreign exchange to be saved. The fourth is information. It is now the information age. Every year large quantities of economic and technical information are widely disseminated throughout the world. If we shut our eyes and stop up our ears, the disparity between our nation and other nations, economically and in terms of science and technology, will inevitably widen. Thus there will be no way to basically change our backward situation, much less talk about increasing our capacity for self-reliance. The times will not wait for us. We must quickly establish, in Shanghai, Beijing, and other places, economic and technical information centers.

In brief, the present economic situation in the world is very beneficial to promoting our nation's four modernizations. Regardless of whether we speak of the West or the East (the various countries of Comecon) times are not easy, and in the relations between developed countries and developing countries, economic imbalance seems set to continue. The world economic situation is fast changing, complex and confusing and therefore our nation's foreign economic development strategy must respond flexibly to changes in the international environment. Only by doing this will it be possible to guarantee and promote the smooth implementation of our nation's socialist modernization.

In looking back and gazing forward, through a great amount of economic forecasting and long-term analysis, regardless of whether we look at the short-term (that is, in the 1990's) or at the medium-term (from the end of this century to early next century) the general situation of the world economy will not basically change. In the latter half of the 1980's, the overall world economy will proceed by stops and starts and will experience a

low-growth stage. In the West it will be like this and in the Soviet Union and the various countries of Eastern Europe it will also be like this. It is estimated that by the 1990's or a little later, a new technological revolution (mainly based on new developments in microelectronics technology, biological technology, new materials technology and oceanic development) will occur. Like the post-war years in the 1950's and 1960's, this will give the world economy new vigor and allow it to shake off the long period of low growth. Another leap forward may occur in the productive forces but the degree of growth at present is difficult to determine. At that time, following the realization of our nation's great goal of quadrupling gross industrial and agricultural output value, there will indeed be a great influence on the economic development of the various countries of Southeast Asia and the whole Asia-Pacific region. Following the rise of the economy in the Asia-Pacific region, the economy and the whole Pacific Ocean region will become prosperous and the 21st century may become the "Pacific Ocean century." Many knowledgeable people have already recognized that the center of the overall world economy will gradually shift from the Atlantic Ocean to the Pacific Ocean and no matter what, in terms of the development situation, the position of the economy of the Asia and Pacific Ocean region will become increasingly important in the world economy.

Therefore our nation's economic development strategy of opening to the outside world must both consider the grim situation faced in international relationships at present and, at the same time, keep in mind the world economic development situation in the period to come (to the end of the century). However, no matter what our nation's unwavering principle in opening to the outside world is, we will firmly adhere to the policies of independence and friendly foreign relations, and strive to achieve a long-term peaceful international environment. We can say that by proceeding from the basic and long-term interests of our nation's people and the people of the world, in all times and in all situations, we should firmly adhere to independence, safeguard world peace and on the basis of the five principles of peaceful coexistence, develop friendly cooperation between various countries and promote common economic prosperity. With this basic goal in our foreign economic work, we must on the basis of equality and mutual benefit, continually expand economic and technical cooperation with various countries and continue with this as a long-term national policy. Therefore, our nation's general strategy in opening to the outside world is to orient ourselves to the whole world. We must open up to capitalist countries and also to socialist countries. We must open up to developed countries also to the vast number of developing countries. This is the general principle we must observe in opening up in all directions in our strategy of foreign economic development.

Since the policies of moving towards the world and opening to the outside world were implemented, we have achieved results which have attracted worldwide attention. Overall, in the initial period we paid great attention to opening to the developed Western countries and foreign funds and technology have also been mainly imported from there. Under current conditions this was absolutely necessary. However, "past experience, if not forgotten, is a guide

to the future." Since the founding of the PRC we have seen great suffering. The suffering remains fresh in our memory and we should draw lessons from it. Now, if we swing from one side to another and go from the extreme to another, it will not benefit us. In 1984, Comrade Deng Xiaoping clearly pointed out that there are three aspects of opening to the outside world: One is opening to the Western developed countries; one is opening to the Soviet Union and Eastern European countries; and one is opening to developing countries of the Third World. (Footnote 3) (Conversation with the Burmese Prime Minister San Yu) This broad and long-term directive should become the overall strategic principle in our policy of opening to the outside world from now on. Only by seriously implementing the strategy of opening up in all directions will we be able to truly adhere to the principles of independence, equality, and mutual benefit.

#### IV. Our Nation's Major Policy Measures in Opening to the Outside World

The policy measures in opening to the outside world are mainly nothing more than foreign trade and drawing in foreign funds. In addition, there are also our nation's special economic zones. The contents of these policies touch on a wide area and here only a few aspects will be discussed.

##### 1. On the Foreign Trade Development Strategy

The core of our nation's foreign trade development strategy can be looked at from two angles--exports and imports. First we will look at the export angle. Increasing exports and our foreign exchange earnings should be our base in expanding foreign trade and technological interflow. Now, as we implement the four modernizations, we need to import many necessary materials. We also need to draw in advanced technology and various types of equipment, make use of foreign funds and also repay principal and interest. All this needs large quantities of foreign exchange. Where will this foreign exchange come from? In our country, like in other developing countries, a shortage of foreign exchange is a relatively long-term phenomenon. The main source of our nation's foreign exchange income is the foreign exchange earnings from exports, and this constitutes over 80 percent of the total. Thus, our nation's overall foreign trade development strategy must be based on increasing the capacity to earn foreign exchange through exports. This determines the scope and scale of our nation's foreign economic trade and technological interflow. It also restricts the scale and speed of development of our nation's domestic economic construction. This is an important strategic problem which is related to the prospects of our nation's opening to the outside world.

In the present situation of our nation's foreign trade, if we are to increase our capacity to earn foreign exchange through exports, there are three major measures we must adopt:

- 1) Readjusting the export commodity structure. This is very necessary. Our nation's export goods are mainly general agricultural and sideline local and special products and mining products. These constitute over half of our

nation's total exports. At present, the prices of primary products in the international market are constantly falling. If we are able to process more primary products and then export them, we will be able to improve the export foreign exchange earnings of the products. At present, our nation's export commodities are divided into three types: the first type is primary products; the second type is light industry and textile products; and the third type is heavy industrial and chemical industry products. These three products are in the ratio 5 to 3 to 2. If we can change this ratio to 4 to 4 to 4, it will mean that primary products will be reduced from 5 parts to 4. Light industry and textile industry product exports are not excessive, and we can maintain the existing ratio. However, if we are to increase the ratio of heavy and chemical industry products, then the first choice is to decrease the exports of light industry and textile industry products a little. The second choice is to maintain a 4 to 3 to 3 ratio. Another choice is 4 to 4 to 2. Because in the world markets our nation's heavy industry and chemical industry products now have ready sales avenues. Of course, the quality is a little lower, but mechanical and electrical products and electronic products can be sold. However, they are not being sold in large numbers. If we change the export commodity structure a little we may be able to improve our foreign exchange income. Of course, we cannot simply "export for export's sake." We must have an overall goal and must readjust the export commodity structure in a planned way. Only in this way will we end up not blindly "exporting to earn foreign exchange" and product results in which losses outweigh benefits. In accordance with long-term development forecasts of the international market and fully considering and utilizing our nation's economic and technical superiorities and potentials, we should strive to achieve a situation by the end of this century in which finished products constitute the bulk of our nation's exports. This will not only increase our capacity to earn foreign exchange, but will also spur the development of the whole national economy.

2) We must proceed from production, improve the overall production layout of export commodities and establish export commodity production bases on a high level and with Chinese characteristics, gradually form a perfect export commodity production system. This is an important measure in the overall reform of the foreign trade system. Of course, in the overall export production system, we should include the various links (such as new material supplies, specialized factories, packaging, storage and transportation, sales, research, and so on). We must take the two links of production and circulation as the main links and strengthen lateral economic ties which transcend regions and departments so that the various production factors are rationally deployed and we achieve production bases which have superior, specialized export factories and mines. At the same time, the state should provide these export foreign exchange earning enterprises with necessary support and preferential treatment in terms of funds, technological imports, energy supplies, and so on.

3) Investigative research into foreign markets should be strengthened. At present, the basic demands made of export commodities in the international market are: high quality, good design, complete range of types, good packaging, and fast delivery. Our exports can no longer "achieve victory

through quality." This requires in a timely way that we understand the changes in world markets and the psychologies of different consumers, flexibly respond to them, and readjust the design and types of commodities. Only by doing this will we be able to overcome blindness and be able to stand in an invincible position!

Now we can talk about the import aspect. We must adhere to the idea of mainly importing technology, and must take this as the basic principle in developing foreign economic trade and technological interflow. We cannot just import anything. We must decide on what to import in accordance with the real needs of socialist modernization. Something can be imported in large quantities, while other things can be imported in all quantities, while still other things do not need to be imported at all. Only in this way can we truly increase our nation's capacity for self-reliance and better serve the four modernizations.

During the 7th 5-Year Plan, one of our major tasks will be to carry out the technical transformation of our 1,000-plus large and medium-scale backbone enterprises throughout the nation. We will need to import over 3,000 items of technology, with the focus on software technology and key equipment. We will especially need to import production technology and industrial technology for raw materials, basic components, and subsidiary components. I believe that during the 7th 5-Year Plan and for quite a period thereafter our nation's imports will mainly involve technology imports. We should strictly control the importing of high-grade consumer products such as color television, sedan cars, and family-use electrical appliances. With the foreign exchange which is then saved, we should do the best we can in importing additional advanced technical equipment to reduce the disparity between our nation and the advanced industrial nations of the world. Under the guidance of the principle of self-reliance we must use a smaller amount of foreign exchange to import more urgently needed technical equipment, and digest and absorb this for our own use. By further developing and innovating we will be able to raise the quality of the products and then export them, thus earning more foreign exchange for the country. In this way we will be able to form a good cycle. Therefore, we also need to readjust the import commodity structure, and we should do this in several ways: 1) First, we must import advanced technical equipment in a planned and systematic way. 2) We must ensure that we import raw materials which we lack. 3) We need to restrict the importation of production lines for the processing and assembly of parts (such as color televisions). 4) We must firmly restrict the importation of high-grade consumer products (such as high-grade cigarettes, wines, and so on).

It is evident that if we smoothly implement the above-mentioned import and export development strategies, we must also appropriately reform our nation's foreign trade system. In the past, control was too rigid, while with the relaxation over the last few years, a lack of control has begun to appear. This is centrally reflected in blind imports. We are a socialist state and in the reform of the foreign trade system we lack experience. We must continually explore and perfect this in practice. However, we need to soberly realize that protectionism has now raised its head in Western world trade and, if we adopt the principle of freedom and noninterference in foreign trade,

then we will have to pay a great price. In the present world economic establishment we must strengthen foreign trade planning management.

## 2. Basic Strategies for Using Foreign Funds and for Attracting Technology

Since implementing the policy of opening to the outside world, our country has already realized great achievements in utilizing foreign fund and drawing in technology. The use of foreign funds to supplement our domestic insufficiency of funds has strengthened the weak links in the national economy, promoted the generational improvement of products, decelerated the technical transformation of existing enterprises and, to a certain degree, improved operations management. In this way we have been able to expand exports and increase foreign exchange earnings. In brief, they have obviously played a positive role.

Based on the current situation, I believe that in using foreign funds and in drawing in technology, our basic strategy should be to master the following four points.

1) We must strengthen overall planning and arrangements for the investment direction of foreign funds, that is, the field in which foreign funds are actually going to be used. We must squarely face reality and admit that, for a period in the past, duplicate imports were a major problem in technology imports. We should seriously draw lessons from this. In the future there must be an overall plan for the investment direction of foreign funds and we must clearly delineate in which areas investment is to be encouraged, in which areas investment is to be restricted, and in which areas it is to be forbidden. This is because credit from abroad is not easily obtained. In order to use the greatest economic benefits from foreign exchange we should use it in strategically import areas such as energy, communications and transportation, communications equipment, and raw materials industries (we should also include investment in developing intellectual resources). We should pay special attention to the strategic key projects set down in the 7th 5-Year Plan. We should use the foreign exchange earned to draw in truly necessary and beneficial advanced technology, equipment and thus push socialist modernization forward in a down-to-earth way. At all times we must make the best use of foreign exchange. Therefore when we use foreign exchange, we must plan some import substitution projects to combine technology imports and the achievement of China-made products. That is to say, we are not "importing for the sake of importing." Rather, in the process of using foreign funds, we must still adhere mainly to the principle of "self-reliance, supplemented by the drawing in of technology."

2) We must use foreign funds to strengthen the technical transformation of backbone enterprises because an important task in the 7th 5-Year Plan is to transform existing backbone enterprises. We have not given this issue sufficient attention in the past and we have one-sidedly stressed the expanding of reproduction through extension. Of course, this transformation task will be extremely arduous and cannot be done all at once. First, we must stress those large and medium-size backbone enterprises which are related to

the overall situation of the national economy so that after they are transformed, they can provide examples to others in the same industry and take on the task of exporting products in order to earn foreign exchange.

3) We must think of ways to improve the investment environment and encourage foreign businessmen to come and invest. We must also draw in real advanced technology to expand the foreign exchange earned through exports and strengthen our nation's capacity for self-reliance. Here we need to treat things in different ways and cannot consider all things together. For truly technically advanced foreign-invested enterprises we can provide appropriate preferential treatment. According to State Council stipulations, these mainly comprise two types of enterprises: The first is enterprises whose products are mainly used for export (not sold domestically), while the second is technically-advanced enterprises. For these enterprises we can provide some preferential treatment in terms of external conditions, such as tax reductions or exemptions, reductions in land-use fees, and reduced labor service fees, encourage them to reinvest the profits they make and guarantee production operations. Second, while improving the investment environment for foreign businessmen, we must appropriately resolve the foreign exchange balance problem for the "three types of funds partially or wholly foreign-owned enterprises." We should stress that in the process of implementing them we must strictly abide by the domestic and foreign sales ratios stipulated in the contract. The two sides must abide by the agreement to truly achieve equal and mutual benefits.

4) In using foreign funds and drawing in technology we must abide by the principle of positive safety so that the scale of foreign funds is controlled within the limits our country's repayment capabilities can bear. Without debts we are unencumbered, while all debts have to be repaid. We certainly cannot go into debt lightly, and when funds are borrowed we must ensure that the foreign credit is rationally utilized so that its greatest economic benefits can be brought into play. Only in this way will it be possible on the basis of economic development to have both the ability to repay debts and also be able to promote the four modernizations. At present, the debt crises in many developing countries are very serious and we should draw lessons from this. Now, we should consider establishing an authoritative organ to exercise unified leadership and coordinated management for whole nation's work in the use of foreign funds. Also, there should be an explicit order that no unit can borrow funds abroad as it wishes, and that there must be unified control. All units needing foreign exchange shall apply through this organ. The organ will then seriously examine whether the importing unit has the debt repayment capacity, and if its does not have the conditions, permission will not be granted. Prior to the deciding of joint-funds projects, it is necessary to assess and properly carry out feasibility research. When the foreign debt is appropriate, then the technology should be imported as quickly as possible to put it into production as quickly as possible, arrange foreign sales as quickly as possible, earn foreign funds as quickly as possible, and clear the debt as quickly as possible.

### 3. The Development Strategy for Special Economic Zones

Due to space restrictions, only a few points pertaining to the situation of special economic zones can be raised here. As far as Shenzhen is concerned, it has realized obvious achievements in the last 6 years. This is important. Now the phrase "Shekou speed" has become world famous. The present major problems include the following: First is the problem of development direction. The special economic zones should utilize their four "windows" role so that key products can enter world markets. In this we must rely on imported technology and modern industry since only then will there be the capacity for competition and will this capacity be spread through to the hinterland. In the initial period of Shenzhen's construction it is possible for it to stress developing commerce and the travel industry, because it is fairly easy for these projects to accumulate funds and the state needs to provide little investment. If we are to be self-reliant, then we should start like this. However, in terms of the overall development strategy we must have long-term plans and arrangements. In general, they should be externally-oriented because Shenzhen should be oriented towards Hong Kong and towards foreign countries and its products should mainly be sold abroad. Through 6 years of efforts, Shenzhen has gained a lot of exploratory experience in drawing in foreign funds and in creating an investment environment. Now it should move from an internal orientation to an external orientation. However, at present, the technical strengths of Shenzhen are not too abundant. Is it possible to first have both an internal and an external orientation and engage in a double orientation, or perhaps to first combine both an external and an internal orientation with the stress placed on the external orientation? In this we should proceed from the actual situation. If we immediately switch to an external orientation, I am afraid that we will not be able to pull it off. My immature idea is that we could further improve the investment environment, continue doing this for a few years and then switch from a double orientation to an external orientation. Second is the currency problem. At present, there are three currencies circulating in Shenzhen city--Hong Kong dollars, foreign exchange certificates, and renminbi. A country can only have one currency circulating. This problem must be resolved. Our country's government has already promulgated that foreign exchange certificates will be abolished, but has deferred this. However, it is only a question of time. In the last few years many people have proposed a special zone currency, but on considering it was felt that conditions are not yet ripe because after the special zone currency is issued, and it is required to float freely in accordance with international exchange rates, it will be necessary for it to have strong reserves since only then will it be possible to control its own fate. Only after key Shenzhen products enter world markets will it be possible for it to earn its own foreign exchange and will the SEZ's monetary base be firm. Otherwise after the SEZ currency is issued it will not solve the problem and it will be squeezed out by Hong Kong dollars and foreign currency. Thus, regarding the SEZ currency, whether or not it should be issued, and if so, when it should be issued, are questions which have not yet been resolved. According to Shenzhen's development plans, by the year 2000 it will need to have drawn in \$7 billion. It is at present very far from that and only a small start has been made. Moreover, of the foreign funds actually

invested in Shenzhen, very few have involved the drawing in of advanced technology. Foreign businessmen require a floating exchange rate. If we are unable to resolve the currency problem, then it will not be easy to draw in great amounts of foreign funds. Another problem is that of the foreign trade system. At present, the SEZ's and the hinterland are different in that the SEZ's are mainly regulated by the market mechanism and mainly export. At present, there are too many "Grandpas" and "mothers-in-law" administering the Shenzhen SEZ and the SEZ should be given more autonomy. As for the question of the management system, should we mainly use "departmental" or "region" management? Perhaps it is more appropriate to mainly use a "regional" system of management because Shenzhen is a special economic zone and we should allow "new things to be done in new ways and special zones to do things in special ways." This requires that some appropriate changes be made in the management system and this may well invigorate the SEZ's development.

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## DEVELOPMENT OF LIGHT INDUSTRY EXPORTS VIEWED

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[Article by Wang Zengjing (3769 2582 2417): "Thoughts on the Development of Export-Oriented Light Industrial Enterprises"--edited by Pan Shucheng (3382 6615 3397)]

[Text] The ability to earn foreign exchange through exports directly determines the scale of our country's foreign trade. It also affects the rate of our country's socialist modernization.

Since the 3d Plenary Session of the 11th CPC Central Committee our country has implemented a policy of opening up to the outside and a stimulative domestic economic policy and as a result foreign trade and foreign exchange earnings through exports have developed faster. According to statistics, our country's total trade in 1985 amounted to 66.7 billion dollars, of which 26.4 billion dollars was export earnings. When compared with 1965, total trade and total exports increased by 15 times and 11 times respectively. It is predicted that they will reach 59.7 billion dollars and 27 billion dollars in 1986.

Light industry is an important sector of our country's foreign trade. In 1985, light industrial exports contributed to about 20 percent of our country's foreign trade earnings. To further increase foreign exchange earnings through exports we must not only give light industry an important role but must also put it in an important strategic position. Those opinions which describe some traditional industrial sectors as "sun-setting industries," hinting that economic development will thus no longer depend on them, are obviously inconsistent with our country's realities.

The development of light industrial exports could be less constrained by the capacity of the world market. The world's annual trade volume in the light industrial market is approximately 200 billion dollars or more. In recent years, the average annual growth rate of the international trade of light industrial products was approximately 7 percent or more. Most light industrial products are consumer goods which always need replenishment and updating. With the development of the world economy and the increase in the world population, the consumption of light industrial products is also increasing day by day. As consumer goods, light industrial products are different from capital goods. They do not respond to sensitivities in the

world's economic climate and do not depend directly or explicitly on the scale of renovation and reinvestment of fixed capital. Since our country's present share of world trade in light industrial products is only 2 percent, there is still plenty of room for the development of our light industrial product exports.

A comparative examination of our country's present major export commodities shows that it is more reliable to expand the light industrial product exports. At the present, our country has three major export staples: mineral products, agricultural, sideline and traditional products, and light industrial and textile products. Mechanical and electrical product exports are still few. When these products are compared, light industrial and textile product exports occupy the most advantageous position. Due to an excess supply of primary products, such as petroleum, oil prices have dropped drastically and consequently, oil-exporting countries were forced to cut production. Since agricultural exports are restricted by natural conditions, such as land and climate, it is difficult to increase them by large quantities. A period of time is also needed to strengthen our country's mechanical and electrical product exports. Many countries in the world have also experienced this process--agricultural exports--energy exports--light industrial and textile product exports--mechanical and electrical product exports--high technological product exports. This path of development is worthy of serious study with reference to our country's realities. Our country in general is at the beginning of a transitional stage from relying on primary product processing as the mainstay to advanced product processing. Light industrial products will still be our country's major source of foreign exchange earnings for a long time to come.

Our country's light industrial product exports have substantial potential for expansion. Our country's total production of consumer goods has reached and exceeded 440 billion yuan and this is a good foundation for exports. Our present total light industrial product exports contribute to only 10 percent of total production. Their potential is far from being brought into full play. The problem becomes evident when the internal structure of the light industry is analyzed. Take wrist watches as an example. Last year, the country's total production topped 65 million and leaped to the list of the world's major watch-producing countries. The number of watches in the hands of consumers in the country also exceeded 300 million. These production scale and ownership figures have created an urgent need to expand watch exports. If we do not introduce new business targets at the right time, the watch industry will shrink as a result of a saturated domestic market. The production scale of the light industry, and particularly some of its sectors, not only provides the possibility to expand exports but also emphasizes the urgency of such a transformation.

Our country's light industry holds a comprehensive advantageous production position and a strong competitive position. Light industry in general is labor-intensive fixed per capita is only 5,000 yuan. Our country has an abundant labor supply. Workers are industrious, brave, and intelligent, while labor costs are relatively low. Of course, it is a complicated task to

compare the different wage rate systems of different countries. We cannot simply compare nominal wages or monetary wages of different countries. The differences in social welfare benefits, such as housing and medical services, wage bonuses, and price levels should be considered, and they should also be examined in relation to labor efficiency. However, it is a fact that our country's labor costs are relatively low. Therefore, the expansion of light industrial exports can help to exploit the advantageous position of our country's labor supply and put us in a strong competitive position in the world market. Export trade is in fact economic competition in which those who can offer better commodities at lower prices get a place in the world market.

The present is a favorable time to expand our light industrial product exports. Since the meeting of the financial secretaries of the seven Western industrialized countries the year before last, the world's monetary order has been greatly adjusted, and economic relations among various countries have also changed. It is a challenge as well as an opportunity for our country. Due to changes in foreign exchange rates, the competitive strength of our exports has been increased. The decrease in the exchange rate of the renminbi to the dollar has made it possible for us to expand exports to countries and areas which use dollars to settle accounts. Some developed countries have been completed to adjust their production policies and their product mix. The production of some labor-intensive products has become uneconomical in some countries. These products have to be imported or produced in foreign countries. For example, the world trade value of packaging materials is 3 billion dollars and the United States alone imports 1.5 billion dollars of these goods. That is to say, the United States now imports nearly all of the labor-intensive commodities it needs. Due to changes in exchange rates, a portion of developed countries' exports have become less competitive and they have had to change from exporting commodities to exporting capital or technology. All this has provided us with an opportunity to expand our light industrial product exports. It should be said that this change in the international division of labor which accompanies changes in countries' economic strength is developing continuously. We did not make use of this opportunity in the past and allowed many others to slip by, thus benefitting some countries and areas. When compared to South Korea, Hong Kong, and Taiwan Province, our exports value in 1965 was approximately equal to the total of the three. However, in 1985, their exports value was equal to or even exceeded ours. These areas have entered into and expanded in the world markets before us and have put our country in a very disadvantageous position in quota allocations. Since the opportunity cannot be lost and the right time will not come again, this lesson is worth our serious consideration.

For a long time our country's light industrial enterprises have basically been domestic-oriented and mainly geared to the internal market. This was the result of historical factors as well as policies. In order to implement the strategic mission of expanding light industrial product exports, it is crucial to set up a large number of export-oriented light industrial enterprises. Without a large number of steady and devoted light industrial enterprises which concentrate on exports, the above-mentioned mission could not be fulfilled. Therefore, coastal and key light industrial enterprises should

accelerate their strategic transformation from domestic-oriented to export-oriented enterprise.

Export-oriented enterprises must follow a special strategy which is to take world market demand as the leading direction in adjusting their product mix and in organizing production, as well as in replacing the management direction of "industry-trade" by the management direction of "trade--industry." For a long time, the domestic light industry market has been a seller's market. This situation has been changed recently. Most products have achieved an equilibrium with demand and supply. The frequency of changes in market demand has increased and enterprises have gradually entered into competition. However, we still need time to realize the transformation from a seller's market to a buyer's market. Similar problems are also reflected in light industrial product exports. The previous practice was to sell whatever we had and to produce from whatever was available. This state of affairs, obviously, could not suit the requirements of export expansion. World market demand can be forecast. However, the determining factors are complicated and the risk is great. While export-oriented enterprises are transforming their management strategy, their ability to adopt changes and their adaptability should also be increased with effort. Of course, for those products which have a complicated and unpredictable world market, enterprises should gear themselves to the world market while at the same time look after the domestic market.

To choose the best and identify a number of key export enterprises is a concrete way to set up export-oriented light industrial enterprises. In choosing which enterprises should be export enterprises, the following points should be considered. One criterion is that the enterprise's products should have an absolute advantage, a certain degree of advantage, or potential advantage in the world market, and the products are obviously better than the products for domestic sale. Another criterion is that the amount of foreign exchange earned through exports or the amount of foreign exchange gained or the percentage share of the products exported must reach a certain level. Still another criterion is that the enterprises should have a high technology level, quality inspection and management, and better conditions to handle information, and be able to meet the requirements of the production exportation. Those enterprises which have had serious faults because of poor quality and have had to pay compensation and those which have had a bad reputation in fulfilling contracts, serious and careful consideration should be made. The task to choose key export enterprises should be carried out step by step and should be conducted in a well-organized way. Special attention should be paid to key export enterprises in the coastal areas so that their advantageous position and better industrial conditions, geographical advantage, and fast information feedback can be fully utilized.

After the key export enterprises are chosen, export-product (enterprise) groups should be set up step by step and an advantageous position should be achieved as soon as possible. This is particularly important to the light industry. Light industrial enterprises in general are small in scale, production is scattered and the level of socialization of production is low. An advantageous position can only be achieved when enterprises are organized

into groups. There are two concrete types of export-product (enterprise) groups. One of them uses the finished product as the backbone and integrates enterprises which are related to each other in the production process. Another integrates enterprises which are complementary to each other in the production process to stabilize cooperation in production so that the reliability of quality and the stability of production can be guaranteed. Another method is to organize enterprises whose production processes form a chain, or even to integrate raw material production bases with related research and design departments. These groups of enterprises are known as vertical integration. Another method is to use production enterprises which produce fine quality and brandname products as the backbone and to organize the same or similar types of enterprises into groups. In this way, the production of products which have an advantageous position, and the market share of these products can be expanded from a higher starting point. These groups of enterprises are known as horizontal integration. If the production of some of our important light industrial exports can be organized step by step into one or several export-product (enterprise) groups, export expansion and market exploration can undoubtedly be guaranteed to a certain degree. Of course, these groups should be formed voluntarily, on the basis of equality, mutual benefits, and risk sharing. A group should be a common body of enterprises which have connections in production technology and have to bear economic profits and losses equally. In this way they can have vitality.

In order to further mobilize the enthusiasm of export-oriented enterprises, we should study the implementation of individual policy incentives and management methods in export-product (enterprises) groups and key export enterprises. Export-product (enterprises) groups and key export enterprises are shouldering responsibilities to earn foreign exchange through exports and to open up foreign markets. When compared with domestic-sale enterprises, their job requirements are higher and the degree of difficulty is greater. Thus, they ought to receive adequate honor and an appropriate degree of encouragement. Our country's present major measures to encourage ordinary enterprises allow them to retain part of their profits and to relate taxes directly to their profits in different ways. There exists an apparent inconsistency between the management target of export-oriented enterprises and the methods used to evaluate and to encourage them. Indeed, export-oriented enterprises should use the world market price to settle accounts, be allowed to be independent in managing business, and adopt the practice of assuming sole responsibility for their profits and losses. Under the present system of foreign trade, foreign exchange and financial management, there are insufficient conditions to generally introduce these. As a transitional method we can only search for individual policies to encourage and manage enterprises. This method should include the following: First, it should emphasize the evaluation of the amount of foreign exchange earned through exports, the rate of contract-fulfillment and the indicator of the quality of exports. Second, it should set the purchasing price higher for a particular export product or at least not less than the factory price of the same product for domestic sale. This principle should be used to reasonably revise the price-setting method of foreign trade. Third, it should allow enterprises to retain foreign exchange and give renminbi bonuses according to the amount of foreign exchange earned

through exports, and relate the two directly. Fourth, it should strengthen the enterprise's ability to self-reform and self-develop by allowing them to withdraw money from the Export-Enterprise Development Fund in a certain proportion according to the growth rate of the amount of foreign exchange earned. Fifth, it should allow these enterprises to distribute a larger amount of bonuses than ordinary enterprises, and the bonuses should be tax-free. The enthusiasm of export enterprises should be mobilized through these policy incentives.

In addition, the development of new forms of export-oriented enterprises and export-product (enterprise) groups may also be explored. The development of export-oriented enterprises and export-product (enterprise) groups is not restricted to the area of production; the circulation and distribution system can also be included. The right to autonomy may be given to some export-oriented enterprises to conduct foreign trade. The more frequent practice is to jointly manage industry and trade at different degrees so that foreign trade enterprises can also join export-product (enterprise) groups. The development of the joint management of industry and trade benefits the present changing situation in which industry and trade are separating. Under these circumstances, macroeconomic control has to be improved so that these groups can begin to compete among themselves, and so that their ability to open markets can be expanded, while preventing price-cutting competition and the outflow of benefits to others. Other than these, there is also an effective way to accelerate the growth of export-oriented enterprises. This is to attract foreign capital to organize joint venture enterprises or cooperative production with enterprises which are technologically advanced and mainly engaged in exportation or importation, within the scope of some sectors in the coastal areas, special economic zones and developing areas. These methods should also be explored and studied well.

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## BRIEFS

TANKER FOR CHILE--Santiago, 17 June (XINHUA)--A Chinese-built oil tanker capable of carrying 62,200 metric tons of crude oil will be bought by the Chilean Oil Navigation Enterprise. A contract on the purchase of the 16-million-dollar ship was signed by the general manager of the Oil Navigation Enterprise, Ivan Soulodre, and the general manager of the Shanghai Shipbuilding Corporation, Lu Shansen. Present at the signing ceremony in Santiago were Chinese Foreign Minister Wu Xueqian, Chilean Minister of Mining Samuel Lira and Transport Minister Enrique Escobar. This is the first sale of a Chinese tanker to a Latin American country. The ship will be delivered by the end of 1988. [Text] [Beijing XINHUA in English 1749 GMT 17 Jun 87 OW] /12232

SINO-CHILE JOINT VENTURE--Beijing (C)--The Beijing Copper Tubing Plant and Chile's Cooper Company recently signed a contract to build a joint venture copper tubing factory. The project will be the first joint venture enterprise to be run by China and a Latin American country. The joint venture, "The Beijing-Santiago Copper Corporation," will require a investment of 10 million US\$ dollars, with each partner putting in 50 percent, and Chile will provide a complete line of copper processing equipment manufactured in Britain. The factory is designed to produce 8,000 tons of copper tubing annually. [Text] [Beijing] XINHUA in English 0618 GMT 15 Jun 87 OW] /12232

SFRY, IIRC TAX AGREEMENT--Belgrade, 17 June (XINHUA)--China and Yugoslavia initiated here today an agreement to avoid double taxation. Both countries agree that a tax agreement will benefit economic and technical cooperations as well as cultural exchanges, sources noted. The tax agreement was initiated by Xiang Huacheng and Vuk Ognjanovic, vice financial ministers of China and Yugoslavia. A Chinese taxational delegation, headed by Xiang, arrived in Belgrade 11 June for a week-long visit. The delegation has met Svetozar Rikanovic, minister of the Yugoslav Federal Financial Ministry. [Text] [Beijing XINHUA in English 1631 GMT 17 Jun 87 OW] /12232

HEILONGJIANG USSR SOYBEAN SHIPMENT--After delivering the last load to Heihe Harbor, the 2,000 tons of soybeans which were contracted to be exported by our province to the Soviet Union were all shipped to Blagoveschensk on 20 June. This is the first shipment of soybeans exported this year by the provincial foreign trade company to the Far East Trade Company of the Soviet Union through Heihe Harbor according to contract. When the freighter berthed in Heihe Harbor to load the soybeans, the captain and crew of the USSR side were invited by the heihe Office of the provincial foreign trade company and the Heihe Shipping Bureau to visit some shops in this border city and to have a look around the city. [Text] [Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 20 Jun 87 SK] /12232

## SHENZHEN PORT 'COULD THREATEN' ENTREPOT TRADE

HK210754 Hong Kong SOUTH CHINA MORNING POST (Business Post) in English 20 Jun 87 p 1

[By Steve Glain]

[Text] A proposed container terminal in Shenzhen could threaten Hong Kong's role as a major sea trading port, according to the head of Hong Kong International Terminals. [HIT]

HIT Managing Director John Meredith said yesterday Beijing had approved plans for extensive container facilities in Da Peng Bay.

He said the so-called, "Yantian Project," with 20 container berths, is being quietly advanced by Chinese officials and would endanger throughput at Hong Kong's five container terminals at Kwai Chung.

"The Yantian project is protected from typhoons, is deep water and has been given the go ahead by Beijing," Mr Meredith said. "If it is built, what will happen to Hong Kong?"

Kwai Chung's terminals are now ranked the second busiest in the world, after surpassing New York last year. Experts have predicted Hong Kong would replace Rotterdam by the end of the decade.

But an extensive network of deep-water container ports nearby would pose a threat to Hong Kong's entrepot trade, said Mr Meredith.

Alternative ports in Shenzhen would lure away sea traders doing business with what he described as Hong Kong's "hinterland"--the textile mills and intermediary manufacturing of Guangzhou.

The Shenzhen authorities have been secretive about the proposed terminals, and Hong Kong officials know little about the plans, said Mr Meredith.

Beijing has also approved plant for ports east of the Pearl River, said Mr Meredith, but he said they would be for coastal traffic and would not compete with Hong Kong's terminals.

Mr Meredith said there was a "striking analogy" between China's incipient port projects and its proposed international airport, also in Shenzhen.

He said news of the future airport had rattled Hong Kong's image as Asia's undisputed trading hub, and had given weight to Hopewell holding's plans for air and sea ports near Lantau Island.

Da Peng Bay was a convenient port site because it could easily be linked to the railway that ties Shenzhen and Guangdong, according to Mr Meredith.

In addition, Mr Meredith said, the Yantian ports would probably offer cheap rates because they would presumably be government run. In contrast, he said, Kwai Chung was owned by private, profit making firms.

Shipping experts have largely discounted China's ability to chip away at Hong Kong's port market. However, the head of Hong Kong's Modern Terminals Ltd [MTL] cautioned against the prospect of alternative port facilities.

In an interview earlier this month, MTL managing director Mark Leese said shrinking capacity at Kwai Chung could force shippers to look for container space elsewhere, and that China could fill the vacuum. To counter this, he said, the government should quicken plans for more port space.

Construction work on a sixth terminal is underway and should be ready by 1989, Marine officials said. Terminal Seven would be put out for tender in September.

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CSO: 4020/222

## GONGREN RIBAO ON TRADE UNIONS IN USSR, EAST EUROPE

HK011142 Beijing GONGREN RIBAO in Chinese 15 Apr 87 p 2

[Report by Hu Fu (5170 3940 5256): "Trade unions in the Soviet union and East European Countries Advance in the Midst of Reforms--Information From the All-China Federation of Trade Union's Third International Workers' Movement Seminar"]

[Text] The trade union movement in the Soviet Union and East European countries played an active role in the past. How do matters stand with it now? Reports have said that the trade union movement in these countries is facing a new situation. The Soviet Union and East European countries are making preparations for carrying out political and economic reforms. How trade unions themselves are now a subject of study in these countries.

Therefore, a noticeable topic for discussion on the trade union movement in the Soviet Union and East European countries is how to reform trade unions in an all-round way.

At the third international workers' movement seminar sponsored by the relevant department of the All-China Federation of Trade Unions in mid-March, participants exchanged views on reforms being carried out in the Soviet Union and East European countries. The concrete content of reforms in these countries is different, but it can roughly be seen that they have offered more democratic rights to workers to take part in administration of the state and social affairs through the Constitution, labor law, trade union law, and other state laws and through government regulations governing the interests of workers. Meanwhile, they have also strengthened the position and role of trade unions in safeguarding workers' interests and making major policy decisions of the state, and changed the work style of trade unions by raising the quality of trade union cadres and staff and through criticism and self-criticism. At the representative assemblies of trade unions of many countries, workers usually make criticism by name and the atmosphere is often lively. Their criticism of formalism, bureaucratic practices, rigid ways of work in the trade union work, overemphasis on consistency between trade unions and administrative departments, ignorance of protecting workers' rights, and divorce from the masses reflects their strong desire for reform.

Since enterprises in Hungary were delegated a decisionmaking power in 1985, trade unions have had the right of representation, right to consent, right to

make decisions, right to make proposals, authority to supervise, veto power, and of protection. Only in Hungary do trade unions have veto power.

Of course, reform of trade unions has just started and there are still many difficulties and problems to be solved. For example, trade unions in Hungary have put social protection and labor insurance under the control of administrative departments, believing that trade unions can better supervise administrative departments to safeguard the interests of workers, but trade unions in Democratic Germany maintain that these are major tasks for trade unions. However, it is obvious that the mighty torrent of reforms has become an irresistible trend of self-improvement of the socialist system in these countries. The reform of trade unions will forge ahead courageously in the mighty torrent of reforms.

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CSO: 4006/773

## 1ST QUARTER FARM MACHINE PRODUCTION, SALES BRISK

Beijing ZHONGGUO NONGJIHUA BAO in Chinese 11 Apr 87 p 1

[Article by Liu [character illegible]-ye [0491 ? 2814]: "To Ensure that Spring Crops are Protected from Drought and To Guarantee Agricultural Production, Output and Sales of Farm Machinery Have Been Brisk in the 1st Quarter: The GVI0 Is Over 3.5 Billion Yuan and the Total Sales Volume Measures 2.9 Billion Yuan, Up 24 Percent and 45 Percent, Respectively, Over the Same Period of 1986"]

[Text] In the 1st quarter of 1987 production and sales of farm machinery in China have been good. In each province, autonomous region, and city, the agricultural sector has conscientiously complied with the spirit of relevant instructions issued by the various departments and committees of the CPC Central Committee and the State Council to increase agricultural inputs and combat drought to protect spring plowing and planting. Where raw materials were inadequate or there was a shortage of electricity, they have used every means at their disposal to overcome problems and actively arrange to produce and supply the agricultural machinery urgently needed for spring plowing and sowing, drought relief, and wheat-field management. As of the end of March, the GVI0 in the farm machine industry was 3,558 million yuan, up 24 percent over the same period of 1986; the total sales volume for farm machinery measured 2,955 million yuan, up 45 percent over the same period of 1986; and reserves were down 5.2 percent from 1986.

Since last winter and this spring, there have been serious signs of drought over most regions in China. The ministries and commissions of the State Council, the State Machinery Commission, and the Ministry of Agriculture, Animal Husbandry, and Fishery one after another have issued notices urging better management in spring plowing and planting, better wheat-field management, and better drought relief. In order to make every effort to maintain the output and supply of electromechanical products, all the enterprises engaged in farm machine production and all the departments engaged in farm machine marketing must concentrate on producing and supplying agricultural machinery, implements, and spare parts. Except for the production of tractor-drawn harrows, which has declined by a fairly large margin, there has been substantial growth in the production of 16 kinds major kinds of farm machinery products. Production has increased 1.3-fold for combine harvesters, 79 percent for water pumps, 40.1 percent for small tractors, and 72.5 percent for tractor-drawn plows. In particular, the demand for equipment for plant

protection, which has been consistently unsalable for the past few years, has jumped sharply: in the 1st quarter of 1987 output has increased 2.2-fold over the same period of 1986. The farm machine marketing system nationwide responds to the same worries that concern farmers and actively organizes the supply of farm machine products that farmers urgently need. In some cases it even provides doorstep delivery and teaches techniques for using its products. Thus, sales volume grows constantly.

The primary reason that production and sales of farm machine products are flourishing is that the state has become more concerned about agriculture and grain production. In order to ensure that grain production reaches a new high in 1987, the state and all localities are increasing agricultural inputs. The growing flexibility of agricultural credit, the revival of diesel fuel supplies, and the increase in poverty relief funds have breathed new life into the market for agricultural machinery. In particular, each farm machinery enterprise sees agricultural support as its own responsibility. These enterprises focus on increasing the production of water pumps, small power machinery, tractor-drawn farm implements, motorized machinery for plant protection, and maintenance fittings. They guarantee quality, prompt supplies, and currency with agricultural seasons, and they simultaneously provide satisfactory post-purchase services and do their best to support agricultural production.

12510/12859  
CSO: 4006/631

## GUIZHOU FARM MACHINE ENTERPRISES SHORT OF FUNDS

Beijing ZHONGGUO NONGJIHUA BAO in Chinese 18 Apr p 2

[Article by Xu Yonglian [1776 3057 1670] and Li Yuxiao [2621 3768 1321],  
Guizhou Farm Machinery Company: "We Urgently Need To Resolve the Shortage of  
Owned Circulating Funds Among Enterprises that Supply Agricultural Machinery"]

[Text] The amount of owned circulating funds is undoubtedly important to an enterprise, and as far as industries are concerned, the areas affected are so great and the extent of potential gains or losses are so profound that this amount is of even more decisive importance. Now we are conducting a preliminary analysis of the shortage of owned circulating funds among enterprises in the farm-machine supply system in Guizhou. We are seeking a timely, feasible, appropriate, and reasonable way of resolving this problem.

The Current State of Owned Circulating Funds Among Enterprises in the Guizhou Farm-Machine Supply System

The fact that the 94 farm machinery companies at or above the county level in Guizhou shoulder the responsibility for allocating, transferring, supplying, and storing agricultural electromechanical products in Guizhou is the bridge and bond that links industrial and agricultural production. At the end of 1985 owned funds in Guizhou totalled 11.69 million yuan, amounting to 41.8 percent of the 27.96 million yuan in stored commodities. Of this, 3.10 million yuan was owned by companies at the prefecture, autonomous prefecture or city level, amounting to 33 percent of the 9.4 million yuan in stored commodities, and 6.33 million yuan was owned by companies at the county level, amounting to 40 percent of the 15.82 million yuan in stored commodities.

Judged according to the state's requirement that wholesale and retail enterprises in the Register of Industrial and Commercial Companies have owned circulating funds of at least 200,000 yuan, 87 units, or 92.5 percent of all units, have less than 200,000 yuan, and 62 of these, or 66 percent of all units, have less than 100,000 yuan. Anshun Prefectural Company, Dafang County, and Xiuwen County Company have no owned circulating funds at all, and the 84 county-level companies throughout Guizhou average 75,000 yuan in owned circulating funds. At the same time, due to the uneven distribution of funds, among other factors, one might say that the vast majority of grass-roots level enterprises are extremely "anemic." Objectively, this severe inadequacy of funds makes it hard to guarantee farmers supplies of the various mechanized

production materials they need. This difficult situation came about for historical reasons. In 1979 the State Council's Office for checking inventories and auditing clearly stipulated that: 60 percent of circulating funds will be provided by the state, insufficient funds will be provided by bank loans, and the interest on the loans will be listed as operational expenses. However, because the state's monopoly on procurement and sales was in effect, a large volume of sloppily manufactured farm machine products got into circulation and caused great losses to the enterprises supplying farm machinery, as they had to scrap the machinery and cut prices. Between 1981 and 1985, enterprise-owned funds worth 17.73 million yuan were written off in compliance with the relevant state regulations. Thus, owned funds dropped 61 percent compared with 1979, including declines of 67 percent for companies at the prefectoral level and 55 percent for companies at the county level. Because farm machinery companies practice the policy of "reasonable calculation of expenses and break-even operations," they have a limited capacity for accumulation and it is difficult for them to supplement owned funds. In addition to this, public coffers are no longer increasing allocated funds, and this ensures a serious shortage of circulating funds in the supply system for farm machinery. Consequently, this leads to a vicious circle of fund turnover in the links between various businesses engaged in purchasing, selling, transporting, and storing farm machinery. It is difficult for enterprises to maintain normal operations, and some enterprises are facing the threat of bankruptcy.

In 1985 there were commodity reserves worth 27.96 million yuan in Guizhou's system of farm machinery supplies, down 61 percent from 72.43 million yuan in 1979. This accounts for only 0.93 percent of total reserves in the national system of farm machinery supplies, placing us third from the bottom among the provinces and cities of China. The decline in reserves is primarily due to restrictions imposed by the shortage of circulating funds. Calculated according to the original state stipulation that owned funds should account for 60 percent of the quota of commodity assets, 66 enterprises supplying farm machinery in Guizhou should supplement their owned funds by 5.1 million yuan altogether. Included in this figure are 17 units in old liberated areas, minority nationality areas, and border regions, that, all told, should supplement their owned funds by 900,000 yuan. Calculated according to current credit conditions, which require that owned funds comprise no less than 30 percent of the quota of commodity assets, 27 units supplying farm machinery in Guizhou should supplement their owned funds by a total of 1.21 million yuan. If we calculate based on the minimum requirement used by the Industrial and Commercial Register in checking funds--that each unit supply 200,000 yuan in owned funds--87 units in Guizhou should supplement their owned funds by 10.67 million yuan all told. Consequently, if we wish to meet ever-growing demand for farm machinery on the current market and do a good job of supplying agricultural machinery, we must first cure the "anaemia" in enterprises that supply farm machinery.

#### A Series of Problems Precipitated by the Severe Shortage of Owned Funds Among Enterprises

In recent years the rural economy has developed rapidly and peasants have been increasing their demands for a greater number, higher quality, and better selection of agricultural machine products. And, in particular, the farm machine

shipping industry and the processing industries focused on agricultural side-lines have boomed. These factors have caused an increase in the level of social procurement of farm machine products in Guizhou, from 36.48 million yuan in 1980 to 58.55 million yuan in 1985. In 5 years we achieved a net sales volume of 206.01 million yuan, for an overall growth rate of 60 percent and an average annual increment of 9.9 percent. This procurement level was achieved by changing our past reliance on state funding and focusing instead upon peasant fund-raising. Viewed from the angle of fund-turnover accounting, the total sales volume for farm machinery companies at all levels rose from 59.67 million yuan in 1980 to 77.49 million yuan in 1985, for a total increase of 30 percent in 5 years and an average annual increment of 5.3 percent. As for the daily increase in demand, even though the farm-machinery companies adopted measures to accelerate fund circulation, prudently organize commodities suitable for market, and reduce intermediate links, funds owned by enterprises in the farm machinery system have declined 61 percent in Guizhou in the past 5 years. The clear change of direction in the two 60 percents has exacerbated the contradiction between farm machinery supply and demand.

First of all, because of the shortage of owned funds, enterprises are restricted in their ability to make interest payments on loans, so they generally reduce stocks by a large margin. This reduction in commodity reserves affects normal supplies. Most severely affected are maintenance fittings. At the end of 1985 our stock of parts was worth only 12.03 million yuan, down 54 percent from 26.08 million yuan in 1985. In the past 5 years we added 1,000 large and intermediate tractors, 8,096 walking tractors, and 50,046 power tools for agricultural use, and yet our stock of parts declined by 14.05 million yuan. The number of parts in stock at the county level was particularly inadequate. Objectively speaking, there is no way to meet the requirement made by higher-level authorities, that the supply of fittings for the primary models of machinery should not exceed county demand.

Second, because funds are short and enterprises cannot pay their bills, it is hard for them to work out plans for stocking merchandise. Some basic-level companies basically have no plans at all, not to mention directed expenditures.

Third, because funds are scarce, enterprises cannot put in a reasonable stock of disaster-relief machinery, which is used for only a short time, has a long turnover period, and is needed on short notice. For example, stocks of machinery for combatting drought, draining flooded fields, and exterminating insects will undoubtedly directly affect Guizhou's ability to ward off natural disasters on farmland.

In addition, the shortage of enterprise funds has a severe impact on the two areas of cultural construction: it affects enterprise ability to correct operating ideology or to improve economic results.

In short, in order to promote the development of industrial and agricultural production in Guizhou, it is imperative that we conscientiously resolve the shortage of owned funds in the farm machinery supply system.

## How Can We Resolve the Serious Shortage of Owned Funds in Guizhou's Enterprises?

We must treat farm-support enterprises correctly. State and enterprise support for agriculture are beyond reproach, but reasonable profits for farm machinery businesses are already embodied in the policy of "break-even operations" in agricultural support work. If we must also depend on a certain minimum profit for enterprises, it will obviously be hard for us to expand reproduction (or operations) or to meet the ever-growing market demand. Therefore, the state must not treat farm-support enterprises engaged in breakeven operations the same as it treats other commercial departments. It should proceed based on actual conditions and, in conformance with their special historical conditions, apply certain special preferential policies to them.

## We Must Readjust the Fiscal Responsibilities that Farm Machinery Suppliers Owe to Higher Authorities

Right now there is a very complicated relationship between farm machinery suppliers in Guizhou and the various levels of fiscal responsibility to higher authorities. We are practicing "charging profit delivery to taxes," and we are also practicing assigned financial responsibility, profit sharing, and so forth.

Even though the central authorities have made clear that farm machinery companies should temporarily refrain from practicing "charging profit delivery to taxes," in Zunyi Prefecture public finance has already put "charging profit delivery to taxes" into effect. The pressure on enterprises is enormous and the reaction is intense. We recommend that during the Seventh 5-Year Plan we should temporarily refrain from practicing "charging profit delivery to taxes" in the farm machinery supply system in Guizhou. Moreover, based on specific conditions in each enterprise, we should adopt the following methods to differentiate treatment:

- 1) Where the owned funds in an enterprise are less than 60 percent, in principle we will not require that profits be turned over to the state. This will increase the enterprise's owned circulating funds. We will give enterprises a free hand in handling their funds, and this will lay the most basic material foundation for enterprise self-development. In addition, where an enterprise's owned funds are less than 30 percent or 200,000 yuan, the state or local government should provide appropriate aid.
- 2) As for profitable enterprises that meet the above conditions, we suggest that the enterprise's profit objective and be suitably appraised and that over-quota profit distribution be put into effect.
- 3) We should lower the current 6.6 percent interest rate on credit granted to suppliers of farm machinery, and allow farm machinery companies to enjoy low-interest farm-support loans.
- 4) We must resolutely put a stop to all the apportionment of expenses for enterprises supplying agricultural machinery.

## PRC PAPER ON SOCIALISM, RURAL ECONOMIC REFORM

HK221003 Beijing NONGMIN RIBAO in Chinese 3 Jun 87 p 4

[Article by Zhang Lin (4545 3829): "The Theory of the Initial Stage of Socialism and the Practice of Rural Economic Development at Wenzhou"]

[Text] Under the guidance of the party's policies of reform, opening up, and economic invigoration, Wenzhou's rural commodity economy has developed rapidly. The tremendous changes which have taken place over the past 8 years have attracted domestic and worldwide attention.

Wenzhou has a big population with limited arable land (the average land per capita is under half a mu). It is inconveniently located and there is a shortage of natural resources. Over the past 30 years or so since the founding of the PRC, Wenzhou has merely developed crop cultivation. As a result, the peasants could not have enough to eat and wear. The total output value of Wenzhou's industry and agriculture in 1977 was only 1.4 billion yuan, an annual average increase of 5.2 percent over the past 30 years. Following the 3d Plenary Session of the 11th CPC Central Committee, the enthusiasm of the peasants for developing commodity production burst out and the rural economy developed at an unprecedented level. In the 8 years after 1979, the total output value of the city's industry and agriculture quadrupled. The figure reached 2.8 billion yuan in 1982 and 6.5 billion yuan in 1986, an annual average increase of 19.4 percent. Local revenue also quadrupled. The figure reached 71 million yuan in 1977, 196 million yuan in 1982, and 503 million yuan in 1986. The peasants' standard of living improved remarkably and peasants in the coastal counties became well-off. Under the conditions of not asking for a single fen of investment from the state over the past 8 years, around 1 million peasants have been transferred to non-agricultural fields. This is an amazing achievement with far-reaching significance.

However, there were different comments from the public regarding the vigorous development of Wenzhou's rural commodity economy. Some censured Wenzhou's rural commodity economy, doubted the direction of its development, and even said that Wenzhou developed "capitalism" and Wenzhou's rural commodity economy is the "economic base of bourgeois liberalization." Why did they maintain such views and make such comments? In my opinion, it is related to the understanding of socialism, particularly of the initial stage of socialism.

As the productive forces are relatively underdeveloped during the initial stage of socialism, although public ownership occupies a dominant position in the key departments of the national economy and in society as a whole, it cannot occupy a dominant position in all localities and industrial departments and cannot become the only economic sector in society as a whole. The existence of various economic sectors is inevitable. In some localities and departments, collective and private ownership may account for a considerable proportion and maintain certain superiority. Socialist public ownership is linked with modernization and mass production and is established on the basis of highly developed productive forces. Under the conditions of extremely backward productive forces, it would be unimaginable to strengthen the production relations in light of one's subjective will. It would also be unrealistic to realize unitary public ownership in society as a whole at the present stage. The practice of China and other socialist countries has proved that it is very harmful. By doing so, it will only hinder the development of productive forces. Wenzhou's rural areas developed second and tertiary industries with peasant households as the basic units. They produced some small sought-after commodities to meet the market needs. Facts have proved that it conforms to the current development of productive forces and has great vitality. Regarding the private enterprises in Wenzhou's rural areas run with exclusive or joint investment which hired peasants, although they have some characteristics of capitalist operation, they cannot be equated with the capitalist enterprises under the capitalist society. Facts have proved that these enterprises have played a positive role in developing China's rural economy, satisfying social demands, increasing income of the state and peasants, and offering employment opportunities to the surplus labor force. During the initial stage of socialism, they should be allowed to exist legally. Under the guidance of state readjustment, we should promote what is beneficial, abolish what is harmful, and let them develop moderately. The coexistence of various economic factors under the predominance of public ownership is precisely the basic characteristic of the economic structure at the initial stage of socialism. Therefore, it is the basic task of China's current socialist construction to develop the public economic sector as well as the non-public economic sectors and increase the social productive forces as quickly as possible. This is genuine socialism and not capitalism.

As the commodity economy is underdeveloped at the initial stage of socialism, sufficient and semi-sufficient natural economy still accounts for a large proportion. This is particularly true in rural areas. For this reason, the transformation from a natural economy to a commodity economy so as to create conditions for the development of specialized and socialized division of labor is still an important question related to economic development at the initial stage of socialism. The development of a commodity economy requires giving full play to the role of market mechanism and the law of value. Market regulation is the main form of readjustment in a commodity economy. State planning and administrative interference can only function through the market mechanism and economic levers. Therefore, the key to economic development at the initial stage of socialism lies in establishing and perfecting a socialist market system which includes a wholesale market for commodities and a market for production factors so as to ensure the smooth operation of a commodity

economy. The practice of Wenzhou's rural commodity economic development has proved this point. The 400 markets, 10 major production and marketing bases, and 100,000 salesmen spread throughout Wenzhou's rural areas have become an immense force pushing forward the development of a commodity economy. In a sense, the tremendous changes in Wenzhou's rural areas would be out of the question without the role of the market. The role of the market mechanism and the law of value is the prerequisite for developing a commodity economy. This is true in a capitalist as well as a socialist commodity economy. We cannot equate the market mechanism and the law of value with capitalism. Similarly, we cannot regard the role of market regulation as "capitalism" and a commodity economy as the "economic base of bourgeois liberalization."

The initial stage of socialism has laid down the principle of distribution according to work. Due to the limited level of the development of the productive forces and people's limited ideological level, we cannot yet implement distribution according to work in society as a whole and cannot yet realize the principle of equal reward for equal work. As the factors other than distribution according to work account for a large proportion in society, the widening of income gap within a specified scope will be inevitable. Owing to the uneven development of a commodity economy, some localities may become well-off earlier than the rest. Within a locality, some people may become well-off first and others later. This is normal so long as their income is legally obtained. In the enterprises that have hired workers, we cannot deny the fact that enterprise owners have exploited part of the workers' surplus labor. To develop productive forces at the present stage, the existence and emergence of such phenomenon is not at all surprising. It should not be whitewashed, covered, or beautified. Naturally, we should impose necessary restrictions and limit such income from being transferred to individual consumption. The initial stage of socialism has the characteristics of socialism as well as the scars of the old society. For this reason, it is difficult to fully demonstrate the superiority of socialism at this stage. We bitterly detest the vestiges of the old society. Nevertheless, it would be impossible to abolish them overnight. The question can be solved only with the development of productive forces and the gradual perfection and consolidation of socialism. This is the historical materialist attitude. The existence of the factors other than distribution according to work, the widening of income gap, and a certain extent of exploitation are the inevitable phenomena in the sphere of distribution during the initial stage of socialism. We should not regard all this as capitalism. Pauperism is not socialism. Naturally, the widening of income gap should be in proportion with the social wealth created. However, there are irrational factors in the wide gap of income at present. This should be resolved through readjustment by the state.

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CSO: 4006/775

## LIAOWANG ESTIMATES 1987 GRAIN, OIL OUTPUT

HK251021 Beijing LIAOWANG in Chinese No 24, 15 Jun 87 p 4

[Article by LIAOWANG reporter: "What Is the Situation of This Year's Grain and Oil Production?--The Preliminary Estimate Is: Stable Yields With a Slight Increase"]

[Text] When wheat was just elongating and booting in China's main summer grain-producing areas in March and April this year, some foreign press agencies predicted that the output of China's summer grain would be reduced because of the warm winter, cold spring, drought, and other disasters following the autumn and winter. Now it seems that they underestimated the ability of Chinese peasants to conquer disasters. Recently, this reporter had contacts with people from both the north and the south. They came either from areas where summer grain was gathered in, or where harvesting had just started, or from areas seriously affected by disasters, or from areas slightly affected by disasters. They all said the following: The situation is better than expected and excellent in some areas.

In Guangdong, Guangxi, and Yunnan, where the season arrives earlier than in other parts of the country, the summer grain and oil-bearing crops are already gathered in. It is generally estimated that the total output of summer grain in Guangdong and Guangxi will increase by 10 to 20 percent over last year. In Yunnan, where grain output decreased last year due to disasters, the situation of this year's summer grain is much better. The sown area has been expanded and the per unit area yield has increased. The total output is expected to increase by more than 30 to 50 percent over the previous year.

In the past, Fujian and Jiangxi regarded summer grain as a crop sown in late autumn. Now they have realized the importance of summer grain and have reaped good harvests. The output of summer grain and oil-bearing crops has increased throughout Fujian. It is estimated that Jiangxi's summer grain output will be the same as last year. However, the output of rapeseed will decrease by a big margin.

Following last year's increase, Henan's 7.2 million mu of wheatfields promise a good harvest. The wheat in most of the areas in southern, eastern, and northern Henan is growing better than last year. When I asked about this

year's harvest, the peasants who had just gathered the wheat in replied cheerfully: "Fine, the per unit area yield can definitely reach 500 to 600 jin (250 to 300 kg)." According to a sample survey conducted by the departments concerned, Henan's total output of wheat this year will hit an all-time high. Moreover, the output of the province's 6.6 million mu of rapeseed has also exceeded last year's figure.

Anhui, which hit an all-time high in its summer grain output last year, has reaped bumper harvests this year, in both 32 million mu of summer grain and 13 million mu of rapeseed. Will a new record be set? This is a question of common concern among the peasants. Hubei, which borders on Henan, has more than 26 million mu of summer grain this year. During the spring season, the peasants said that the crops were doing well. Viewed from the harvest, the total output will also exceed last year's figure.

Owing to the serious drought in Shandong, Hebei, Shanxi, Shaanxi, and other northern summer grain production areas during autumn sowing last year, the sown area reduced in a number of localities and people predicted that the total output would also be reduced. Viewed from the growth of crops and the harvest, the output will be more than expected.

We can draw the following conclusion from a general assessment of the data of summer grain and oil-bearing crops gathered from various localities: If no accidental disasters occur in the later period, the total output of the nation's 457 million mu of summer grain will slightly exceed last year's figure. The total output of the 76.9 million mu of rapeseed will also exceed last year's figure.

The harvests of China's summer grain and oil-bearing crops this year have been hard-earned. Owing to drought in the north during the autumn sowing season in 1986, the sown area of wheat reduced compared with the previous year. In winter, the area affected by drought expanded due to the shortage of rain and snow. The unbroken spell of wet weather, low temperatures, heavy snow, and other disasters in spring adversely affected the overwintering crops of a number of localities.

In view of the disasters in China's main summer grain and oil producing areas, the State Council and government and departments concerned in all localities stepped up measures to resist drought, ensure spring plowing, and strengthen management; supported agricultural production with funds, chemical fertilizers, and energy; and organized large numbers of cadres and agrotechnicians to work out remedial measures with the peasants in the fields, which produced remarkable results. Hebei irrigated an area of over 26 million mu before winter, hitting an all-time high. In the beginning of spring, the whole province did a great deal of work to strengthen management over the jointing and greening up stages of the wheat. Regarding the areas in the middle and lower reaches of the Chang Jiang, including Jiangsu, Anhui, and Hubei, affected by frost damage and floodwater, the peasants opened ditches to drain water, applied farmyard manure and chemical fertilizers, and tried by ever means to accelerate the growth of seedlings and reduce the loss from frost damage.

## FINE CROP STRAINS INCREASE GRAIN OUTPUT

HK240719 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1249 GMT 19 Jun 87

[Text] Beijing, 19 Jun (ZHONGGUO XINWEN SHE)--China is looking upon the breeding and spreading of fine strains of crops as an important measure to increase agricultural output and has scored remarkable achievements. In recent years, new strains specially cultivated by the state scientific and technological departments have amounted to 334, growing in an area of 400 million mu and increasing grain output by about 10 billion jin.

At a news conference today, Xiang Chongyang, vice minister of the Ministry of Agriculture, Animal Husbandry, and Fishery said that a number of new high-yield, fine-quality, and disease-resistant strains cultivated by China have played a great role in agricultural production. There are mainly 36 new strains of crops cultivated last year which generally yield 8 to 20 percent more output than the crop strains promoted by the localities.

Xiang Chongyang said that China already possesses about 300,000 data concerning the strains of over 60 crops, thus becoming one of the countries with the largest collections of these data in the world.

In recent years, by making use of international aid as well as government funds, China has built up two state data bases of crop strains. The No 1 data base has already been commissioned and the No 2 data base has been completed, becoming one of the largest modernized data bases of crop strains. Besides, China has already made exchanges of strain data and established contacts of scientific and technological information with over 80 countries and international professional organizations in the world. At present, the State Planning Commission is planning to set up a trial state base for introducing and quarantining strains of crops to further develop the international exchange and study of crop strains.

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CSO: 4006/775

## PRC SEMINAR ON DEVELOPING GRAIN PRODUCTION

HK260901 Beijing RENMIN RIBAO in Chinese 22 Jun 87 p 5

[Report by Wang Yanti (3076 7159 7344) and Feng Lixin (7458 4539 2450): "How to Further Develop China's Grain Production--A Brief Account of the First Forum on Financial Theories for Rural Areas"]

[Text] Recently, the Rural Finance Research Society of the Chinese Finance Society held its first forum on rural financial theory to discuss how to further develop grain production in China.

People who attended the meeting held that grain production in China is of special importance. Our country has a large population, and the per capita area of farm land is small. So, the development of grain production is particularly important. The development of agriculture, especially grain production, has a great bearing on the steady and coordinated development of the national economy and the stability and unity of society.

Participants held that at present, the steady development of grain production is mainly affected by the following factors: The policies concerned, including the policies for grain purchases and for the supply of production materials, as well as the purchase prices, were not stable; the area of farm land has decreased sharply; the quality of the land has deteriorated; soil erosion has become more serious; agricultural investment has decreased; financial investment did not achieve satisfactory results; grain prices remained at too low a level; the irrigation and drainage facilities were not properly maintained and many of them were damaged; and so on. For these reasons, peasants have been less enthusiastic about planting grain crops in recent years.

How should we further develop grain production in our country? People attending the meeting put forth the following proposals: The central and local authorities should maintain a stable policy for agricultural investment; the method of "using earnings from rural industry to subsidize agriculture" should be used for a long time; some legislative measures should be taken to stipulate the proportions of grain, cotton, and oil-bearing crops in agricultural production and the profit shares for the state, the collective, and the individual, and it would be better if an agricultural investment law could be enacted; the supply of farm production materials should be linked

with the grain purchase contracts on a long-term basis; comprehensive measures should be taken to maintain the existing area of farm land; new scientific and technological achievements should be applied to production and be popularized so as to raise the unit yield; and it is necessary to formulate a national agricultural development program, trade development plans, and technological-economic policies.

People at the meeting held that the finance department should support the further development of grain production, and should raise more funds for agricultural investment and raise the efficiency of the use of the funds through deepening reform.

First, financial appropriation should be increased. Most people at the meeting said that financial appropriations to agriculture should be increased as much as possible. At the same time, the scope of such financial appropriations should be properly adjusted, and the funds should be mainly used for the purposes of improving the basic facilities for agricultural product and promoting agricultural science and technology.

Second, we should carry out bold reforms and explorations to change the old idea that financial appropriations can only be made without compensation. We should try to combine financial funds with social funds, combine appropriations without compensation with compensable appropriations, and combine financial funds with credit funds. 1) We should expand the source and use of the funds for assisting agriculture, and enlarge the proportion that is used for grain production. We should not merely emphasize the returns and turnover of the funds. 2) We should flexibly regulate the movement of the funds, properly manage the financial funds which are idle for a short time, and use these funds to support some minor projects which can be completed quickly and yield rapid returns. 3) Financial support should be given to a small number of agricultural projects which reach a certain management and technological level and which cannot easily obtain credit funds.

Third, we should improve the use efficiency of the funds for assisting agriculture. 1) It is necessary to reform the system for managing the financial funds for assisting agriculture so as to solve the contradiction between departments and localities by giving more power to the localities to determine the use of these funds. 2) It is necessary to reduce the administrative expenses so as to increase the amounts being directly used for agricultural production. 3) Experiments for offering compensable financial appropriations to some small irrigation projects can be carried out. 4) The method of setting the base for distributing funds for agricultural production should be reformed. 5) The funds used to help poor areas should be divided into two parts, with one being used for production and the other for people's livelihood. 6) The financial departments, especially those at the grassroots level, should guide the practice of "using earnings from rural industry to subsidize agriculture" under the leadership of local governments, and industrial incomes can be gradually used to develop agriculture. 7) The financial departments should appropriately concentrate the funds and use them to support the building of commodity grain production bases at the county

level and to develop some large-scale production projects. In particular, it is necessary to consolidate the development of the old grain producing areas.

Fourth, taxation can be used to regulate the income differences between different trades in the countryside so as to ensure the steady increase in the incomes of peasants who produce grain. At the same time, it is necessary to improve the township finances and guarantee a certain proportion of investment in grain production so as to ensure the steady and sustained development of grain production.

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SUPREME COURT PRESIDENT ON PUNISHMENT FOR SMUGGLERS

OW041840 Beijing XINHUA in English 1558 GMT 4 Jun 87

[Text] Beijing, 4 June (XINHUA)--Chinese courts will continue to severely punish gold and cultural artifacts smugglers, and those who rob ancient tombs, Zheng Tianxiang, president of China's Supreme People's Court announced today.

Addressing a national court conference, the president said, "this action is of vital importance to protecting state interests and safeguarding the country's rich cultural and artistic heritage."

"In addition to punishing offenders, we must also educate all citizens in these laws," zheng added.

"Those who damage mineral and timber resources, and illegally hunt rare animals and collect rare plants now under state protection will be punished to protect the country's natural resources and ecological environment," Zheng went on.

Last year, there were 48,000 cases involving the illegal felling of trees, and the damaging of over 100 million trees and 50,000 hectares of forests.

"A crackdown on serious criminal and economic crimes is still a 'key task' for the country's courts," Zheng said, "and this action is aimed at protecting the smooth progress of the civil and economic activities of China and its citizens."

China's nationwide struggle against serious criminal offenders, which started in August 1983, has put an end to the once atypical situation in social order which was noticeable before the crackdown began," Zheng said, adding the crime rate has remained stable at 5 instances per 10 thousand people over the past 3 years.

"For 41 months, which ended last December, China's courts handled 1.40 million criminal cases and jailed 1.72 million offenders," Zheng said, adding about two-fifth of the offenders were sentenced from 5 years to life, and some were given the death sentence.

"The country's courts also jailed 89,000 economic criminals," Zheng disclosed.

"Social order in some of the country's larger cities has still not been normalized," Zheng said, "and the crime rate was still on the rise in some cities earlier this year."

TRAINING, PERSONNEL IN CHINA'S GROWING SUBMARINE FLEET

HK220743 Beijing LIAOWANG [OUTLOOK] in Chinese No 23, 8 Jun 87 p 2

[Article by Huang Caihong (7806 1725 5725): "China's Rapidly Developing Submarine Units"]

[Text] Having developed into an important naval shock force with considerable size and combat capacity, the submarine units of the Chinese Navy now rank alongside advanced world counterparts.

There are now more than 30 countries and areas in the world processing their own submarine units. The Chinese Navy's submarine force was founded on 16 June 1954 with the approval of Chairman Mao Zedong, under the direct guidance of Premier Zhou Enlai. Today, all medium- and large-sized submarines of various models in service in the Chinese Navy have been built by China on its own. Both the quantity and total tonnage of the Chinese submarine fleet have expanded several dozen times over 1954 when it was founded. Apart from conventional submarines, Chinese submarine units also have nuclear-powered submarines. What is more, China, which used to purchase or imitate foreign submarine equipment in the past, has now begun to manufacture submarine equipment on its own. In the wake of the development of submarine equipment, the Chinese submarine force has gradually established a regularized training system that matches its equipment. In their training program, submarine units set store by the training and improvement of basic techniques, with emphasis placed on the training of captains, divisional heads, chief petty officers, and volunteers.

Submariners are selected from among junior and senior secondary school graduates nationwide on a compulsory basis. All candidates must undergo a strict physical examination before they join the submarine units, to make sure that they are fit for submarine service and are ready to learn all the techniques for submarine operation. After being recruited, they will be admitted to naval training classes at submarine institutes where they will first learn to cultivate the quality of soldiers and an indomitable revolutionary spirit. After that, they will take some common courses on submarine operation, shift to learn some professional knowledge and undergo physical training, so that they can fulfill the requirements for submarine service and independently do their duties. Students who have passed the graduation examination and fulfilled the set standards will be awarded certificates and appointed to take up suitable posts on board. Fresh

graduates serving on board are required to learn more about the tactical and technical specifications of their submarines and to become familiar with all the regulations concerning their duties. They will also have to undergo professional training for independent operation in accordance with the outline for training in specialized arms of the service. Only those who have passed the examination can serve as qualified submariners.

Submariners can be classified as first- or second-class technical experts according to their technical standard and awarded a badge by the operational department concerned after assessment. First- and second-class technical experts are "outstanding members" of their own division in terms of technical performance. They have perfectly mastered the techniques their posts require and can accomplish various tasks under relatively complicated and difficult circumstances. Submarine volunteers who are selected from among those technical experts with 6 years of service are the backbone technical force in submarine units and are allowed to stay in the service for a longer time. The operational department concerned conducts an annual assessment of volunteers with a view to encouraging them to polish up their techniques and update their professional knowledge. All chief petty officers of specialized divisions are selected from among volunteers. Regarding the training of chief petty officers, emphasis is laid on enhancement of their proficiency in operating and maintaining the whole equipment systems of their own division, and of their organizational and management ability, so that they can take charge of a whole technical department.

Candidates for divisional heads on board submarines are selected from among outstanding submariners with more than 2 years' experience, or from among graduates of local senior secondary schools. They are sent to take elementary command training courses at submarine institutes. Those who have passed a graduation examination after 4 years' study will be conferred a diploma equivalent to a bachelor's degree. They will then be appointed to serve as trainee divisional heads on board and to undergo practical operational and command training. When they complete all the training items of their own division's training program and pass the assessment conducted by the corresponding operational departments under the headquarters, they will be officially nominated divisional heads. If they pass the assessment for duty submarine officers, they will be awarded a certificate of independent operation for duty submarine supervisor.

Candidates for captain are selected from among outstanding divisional heads and will then be sent to study at submarine institutes. Having passed the examination, candidates for captain will be appointed to work under training and will become qualified captain if they succeed in the final training examination. These qualified captains still have to further their training in all subjects according to the training outline. After they have undergone the training in all subjects and passed a test, they will become full captains and be awarded a fully-trained captain's certificate and badge. This regularized training system has helped to greatly improve the quality of our submarine personnel.

Submarines are modern weapons for conducting underwater warfare. Long-distance cruise training is needed to enhance submariners' underwater combat ability, to temper them in terms of their ideological understanding, work style, technique, and living conditions, and to increase their adaptability to underwater life and warfare. therefore, the Chinese Navy's submarine units set great store by long-distance cruise training and combined operation training.

In the past few years, the Chinese Navy's long-distance submarine cruise training has been developed to a new level. The duration of non-stop underwater cruises have been extended to more than a few weeks, while both the cruise distances and diving depths of submarines have been increased considerably. In the past, submarine units only had a single-arm training program for their long-distance cruise training. Now, combined operation training programs involving submarines, surface vessels, and the Navy's Air Force are available.

The submarine units now have more and more advanced modern electronic training means. Remarkable progress have been made in submarine simulation training, and computer systems have been used in the training equipment. Simulated tactical situations and lifelike naval warfare scenarios have helped to fully train submarine commanders' combat commandability under different battle conditions, enabled them to get familiar with the special features of submarine warfare and the use of various tactics and techniques, created conditions for the development of new submarine combat tactics and new submarine combat theory, and in addition, considerably raised the tactical and technical standards of submarine commanders.

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MILITARY, PUBLIC SECURITY

PARTY THEORISTS TO EXPLAIN CPC LINE TO NANJING PLA

OW260454 Nanjing Jiangsu Provincial Service in Mandarin 0915 GMT 23 Jun 87

[Text] Three teams of professional theorists and a company political instructor, organized by the Nanjing Military Region to explain and publicize the line laid down by the Third Plenary Session of the party's 11th Central Committee, left on 22 June for basic PLA units to talk face-to-face with cadres and fighters and answer their questions.

The Standing Committee of the Nanjing Military Region Party Committee decided to organize these teams. By giving lectures, holding small-scale forums, and answering questions face-to-face, these teams will explain and publicize to PLA members the need to uphold the four cardinal principles and carry out the policies of reform, opening to the outside world, and invigorating the domestic economy. They will explain and publicize the significant achievements of reform and the development of theory in the past 8 years since the Third Plenary Session of the party's 11th Central Committee, and will help PLA members correctly recognize some social phenomena which have occurred in the course of carrying out reform, opening to the outside world, and invigorating the domestic economy; and they will help PLA members comprehensively understand the relationship between the two basic points of the line laid down by the Third Plenary Session of the party's 11th Central Committee.

For more than a month the teams will make a circuit of PLA units to explain and publicize the line laid down by the Third Plenary Session of the party's 11th Central Committee

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MILITARY, PUBLIC SECURITY

BRIEFS

ARTILLERY EXERCISES IN TIBET--At the junction of spring and summer, units stationed in Tibet held rigorous field exercises on the vast snowy plateau. The Xizang MD moved integrated training dates up 2 months this year because of natural conditions and troop responsibilities. A certain artillery unit advanced 300 kilometers over an icy road, studying motorized advance, quick reaction, fire assaults, selecting artillery positions, locating observation posts, etc. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 27 May 87 p 2]

NANJING BRIGADE FORMED IN 1981--Xie Lianchu [6200 6647 0443], director of a certain Nanjing MR brigade's Barracks Construction Office, entered service in 1968 and is now deputy battalion rank. In the beginning of 1981 he was sent to work at a brigade that was just being formed. This brigade is located in a stretch of uninhabited swampland and all personnel previously lived in tents. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 11 Jun 87 p 1]

CSRF SUPPLY ROUTE DESIGNED--As of mid-June, the Second Artillery [China Strategic Rocket Force] Engineering Design Institute completed a total of 700 design projects in site, command, barracks, and support measures engineering during the past 10 years, representing a savings to units of more than 50 million yuan. A certain materiel supply route had extremely complex terrain with dozens of route markers, bridges, and culverts. Designers spent 3 months in the hot forest full of mosquitoes determining route directions and locations for bridges and culverts. Their plan represented savings of more than 1 million yuan over projections. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 14 Jun 87 p 1]

NEW ARMORED VEHICLES DISPLAYED--The General Staff's Armored Force Equipment Technology Research Institute displayed 10 new types of armored vehicles in Beijing on 26 May, attracting the attention of the Central Advisory Commission. Wang Shoudao, Xiao Ke, Song Shilun, and 29 other members excitedly listened to the descriptions of these vehicles and watched a demonstration of China's first generation of tracked bridging vehicles. Some members even climbed onto the armored vehicles. Deputy Chief of the General Staff Han Huazhi accompanied them. [Text] [Beijing JIEFANGJUN BAO in Chinese 27 May 87 p 1]

XINJIANG MILITARY HOSPITAL--The hospital of a certain unit located in Shache [Yarkant] Xian, Xinjiang, has treated 76 minority civilians so far this year. [Excerpt] [Beijing JIEFANGJUN BAO in Chinese 27 May 87 p 2]

REMOTE BROADCASTING SYSTEM--A certain division in the Beijing MR has successfully developed a "wireless remote control broadcasting system" to use against the enemy. It consists of a broadcasting center and terminals. When used in defensive operations, it can make use of permanent and field

installations, is easy to conceal, and is not effected by weather or terrain. Used in an assault, it can be fitted on to various vehicles to increase mobility as it is resistant to vibration. It can improve work efficiency if applied to remote automated management of mines, harbors, and other enterprises. [Text] [Beijing JINGJI RIBAO in Chinese 25 May p 3]

ARTILLERY BRIGADE CADRE TRAINING CENTER--A certain artillery brigade in the Nanjing MR has focused on the recent increased number of cadres with higher education to implement many forms of on-the-job training. It established an officer training center equipped with a library, foreign military research room, training simulators, and a computer room. [Excerpt] [Beijing JIEFANGJUN BAO in Chinese 2 Jun 87 p 2] A certain artillery brigade has established an officer training center which has already had initial results in its first year of operation. In mid-May the Nanjing MR held a meeting on location at the brigade to promote their experiences. The center primarily relies on off-hours self-study, organizing group study 2 or 3 days per month with short classes held occasionally to compare specialties. It offers group classes in such things as Mao Zedong military thought and service arm knowledge. Technical classes are based on artillery specialties, including fire command and use of computers in artillery operations, etc. Officers can also select courses in civilian technologies. [Text] [Beijing JIEFANGJUN BAO in Chinese 10 Jun 87 p 1]

JIANGSU RECRUITMENT EFFORTS--Of the 970,000 eligible-age youths in Jiangsu Province, 99 percent reported for conscription in 1986. Of the recruits, 39.1 percent were party members, 36.4 percent had the equivalent of a high school education, and 61 percent possessed technical skills. Within a sampling of 12,147 Jiangsu recruits, 98.2 percent began service without any reservations. Two thousand recruits from 4 provinces participated in the light firearms firing held by the training regiment in the Zhousheng [5297 1522] Garrison District. [Excerpts] [Nanjing XINHUA RIBAO in Chinese 4 Jun 87 p 1]

REDUCED MILITARY SCHOOL ENROLLMENT--On 22 May, the General Staff and General Political Departments made an announcement on military school and college enrollment for Fall 1987. All military schools will have about 20,000 new students, a reduction from last year. Based on the need to supplement the cadre ranks after streamlining and reorganization, this call for students has accordingly reduced the number enrollment for infantry, artillery, and communications courses, while increasing the number of recruits for specialties such as transport platoon leaders and medics under division level. Mid- and higher level command institutes will mainly enroll active cadres who have not had training at these levels and will give them remedial courses. Except for command specialties requiring good technical skills which will be able to enroll a small number of soldiers and technical backbone cadres, entry-level command schools will recruit completely from among outstanding platoon and deputy platoon leaders. Schools given permission by the general departments to hold correspondence schools will also fall under the enrollment guidelines and will enroll active cadres. When enrolling students, both their academic achievements as well as their ideological character will be important. [Text] [Beijing JIEFANGJUN BAO in Chinese 26 May 87 p 1]

GARRISON BRIGADE FIELD TRAINING--Second Battalion of a certain Shanghai Garrison District garrison brigade organized a 1-month long field exercise which combined bivouacing with in-barracks tactical training. Attendance for the training rose from a previous 80 percent to 92 percent. [Excerpt] [Beijing JIEFANGJUN BAO in Chinese 2 Jun 87 p 2]

NATIONAL PROVING GROUND--[photo captions, clockwise from top right] (1) High speed camera making exterior ballistic measurements of 152mm self-propelled cannon/howitzer. (2) Technician of the Optical Measurement Station inspecting an anti-aircraft artillery fire direction sight. (3) The "projectile characteristics automatic measurement system" successfully developed by technicians uses a microcomputer to control four measuring devices. It will automatically collect and process test data. (4) The work of the comrades in the ammunition shop is rigorous. Here they precisely measure the results of antitank weapon hits. (5) The environmental testing office carries out a firing test of light weapons in a simulated downpour. [Text] [Beijing BINGQI ZHISHI in Chinese No 3, 15 May 87 p 1]

LARGE UNIT ON NORTHERN BORDER--Twenty regiment-level organizations of a certain unit stationed on the northern border have had good results in their child-care work. This unit is located along a long border. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 30 May 87 p 1]

RESERVE REGIMENT FIGHTS FIRE--A certain regiment of the Qiqihar ground forces reserve infantry division received a "fire fighting" order from higher levels on 12 May at 2230 hours. Within 23 hours they completely assembled the 1,300 cadres and soldiers dispersed throughout the villages of the county, made preparations, and went without a hitch to Daxinganling. [Excerpt] [Beijing JIEFANGJUN BAO in Chinese 30 May 87 p 2]

SICHUAN DEMOBILIZATION STATISTICS--Since the military demobilization system was reinstated in 1975 [as printed], Sichuan Province has settled 155,000 cadres in the civilian sector. [Summary] [Chengdu SICHUAN RIBAO in Chinese 2 Jun 87 p 1]

STATUS OF RETIRED CADRES--Retiring military cadres now returning to the locales, according to retirement regulations currently in effect, are 1) Cadres who entered service during the Liberation War (including those who took part in local revolutionary work) who are of regiment-level rank or administrative level 15, or below, or who have the equivalent occupation (or title); 2) Cadres who entered service during the Anti-Japanese War who are of battalion-level rank or administrative level 19, or below, or who have the equivalent occupation (or title). Retired cadres who were transferred to the locales before 1980 and those who retired and then were resettled, are under the jurisdiction of the personnel departments. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 13 Jun 87 p 3]

STREAMLINING POSSIBLY ON SCHEDULE--The State Council and Central Military Commission have determined that 100,000 cadres should transfer to the locales this year. If this group of cadres can be settled within the year, it is possible that the resettlement of excess cadres as part of PLA streamlining and reorganization can be completed on schedule. [Excerpt] [Beijing JIEFANGJUN BAO in Chinese 27 May 87 p 1]

CURRENT RETIREES ARE HIGHLY QUALIFIED--A large proportion of cadres retiring this year are young, have high educational levels, and possess technical skills. Only 3 percent are over 46 while 70.6 percent are under 35; 92.1 percent have a high school or polytechnic school education, and 18.9 percent have had higher education, which are the highest 1-year levels ever. In addition, more than 28,000 or 21.9 percent have technical skills. They will have a positive effect on national economic construction, however, as 320,000 cadres have transferred to the locales in the last 2 years, the locales have had many difficulties resettling them. Every locale should continue to make this work an important political task. [Excerpt] [Beijing JIEFANGJUN BAO in Chinese 27 May 87 p 1]

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## COMMENTARY LINKS 4 PRINCIPLES, REFORM, OPEN POLICY

SK060347 Jinan DAZHONG RIBAO in Chinese 18 May 87 p 1

[Commentator's article: "Thoroughly Understand the Two Basic Points"]

[Text] Upholding the four cardinal principles and upholding the principle of conducting reforms and opening to the outside world represent the two basic points of the party's line set forth since the 3d Plenary Session of the 11th CPC Central Committee. Deeply understanding the dialectically unified relationship between the two basic points represents an important guarantee of our success in various work.

The four cardinal principles are fundamental principles that we consistently uphold and are the outline and guide of our acts; they represent our fundamental political orientation and the foundation upon which China was established. Conducting reforms and opening to the outside world are the new contribution and content of the party's line set forth since the 3d Plenary Session of the 11th CPC Central Committee and are the general guideline and policy in our program of building socialist modernization. Both of the two basic points are indispensable for us to make the province prosperous, to make progress, and to build the four modernizations. Therefore, we should not set one against the other. These two basic points complement each other are interdependent. Our practice and experience over the past many years have shown that in our country, we cannot maintain stability and unity in politics without upholding the four cardinal principles and will commit mistakes in conducting our fundamental political principle and direction. Without the guarantee of the four cardinal principles, we will be unable to push forward the policy of conducting reforms and opening to the outside world and will lose our direction. If we fail to uphold the policy of conducting reforms and opening to the outside world, socialist productive forces will not develop to the fullest extend, superiority of socialism will not be brought fully into play, and the four cardinal principles will not be better upheld. Meanwhile, our failure in this regard will also provide brisk markets for bourgeois liberalization and actually give a helping hand to bourgeois liberalization.

In practical life, some persons have set the spirit of upholding the four cardinal principles against the policy of conducting reforms and opening up to the outside world and have not understood the dialectically unified relationship between the two basic points. Upon hearing the policy, some often hold that it is not necessary for them to uphold the four cardinal

principles, and upon hearing the spirit, some often hold that the party's policy of conducting reforms and opening up to the outside world will be "pulled" out. Some also hold that problems cropping up in economic development are caused by the drive to conduct reforms and they become doubtful about the policy of conducting reforms and opening to the outside world; moreover, some hold that the policy is the root of bourgeois liberalization and criticize or resist the existing effective policy and measures on conducting reforms. All of these practices are wrong and run counter to our practical situation and advancing direction. In fact, the spirit of upholding the four cardinal principles cannot and will not hinder or discard the policy of conducting reforms and opening to the outside world. On the contrary, it can create favorable political and social climate and practical conditions for the policy of conducting reforms and opening to the outside world. On the contrary, it can create favorable political and social climate and practical conditions for the policy of conducting reforms and opening to the outside world, can ensure the correct direction of the policy, and even can more effectively deepen the policy of conducting reforms and opening up to the outside world. In regarding the four cardinal principles as the outline and guide of our acts, each one of them has its practical historical content and is full of vigor. The content itself should be continuously enriched and improved through the practice of conducting reforms and opening up to the outside world and should be newly and convincingly appraised in line with the rich facts cropping up in the policy. This means that making a success in the policy cannot be divorced from the spirit and that making a success in the spirit cannot be divorced from the policy. On the basis of fundamental purpose and direction, both the policy and spirit are in unison. Rejecting the policy will actually lead to the negation of the policy. In the historical course of building modernization, only by firmly grasping the two basic points can we bring about stability and unity in politics and a flourishing and vigorous economy and do a good job in building socialism reflecting Chinese characteristics.

At present, the major two tasks we face are: We should deepen both the struggle against bourgeois liberalization and the economic structural reform. There is a great deal of work to be done in order to deepen the struggle against bourgeois liberalization and to continuously and successfully enforce the policy of conducting reforms and opening to the outside world. To this end while upholding the four cardinal principles and opposing bourgeois liberalization, we also must enhance our theoretical research on the policy of conducting reforms and opening up to the outside world and our propaganda and education work in this regard. We should further upgrade the understanding of the policy by the broad masses of cadres and the people, clearly define the dialectically unified relationship between the spirit and the policy; and have the people and cadres deeply understand the necessity, long duration, complexity, and arduousness of the drive to conduct reforms. We should truly know that we are still in the primary stage of socialism and that without enforcing the policy of conducting reforms and opening to the outside world and vigorously developing productive forces, we will have no future and will be unable to fulfill the task of building socialist modernization. We should not only uphold the policy of conducting reforms and opening up to the outside world, but must also accelerate the pace of enforcing the policy. Only

by doing a good job in conducting reforms and opening up to the outside world can we bring into play the enthusiasm and creativeness of the people, develop productive forces, reveal the superiority of socialism, enable the society to truly be attractive and convincing, and better uphold the four cardinal principles.

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CSO: 4005/786

## COMMENTARY AFFIRMS 'IRREVERSIBLE' TREND OF REFORM

SK060543 Jinan DAZHONG RIBAO in Chinese 19 May 87 p 1

[Commentator's article: "Transformation Indicates a Great Irreversible Trend"]

[Text] Since the CPC Central Committee directive on conducting education on upholding the four cardinal principles and opposing bourgeois liberalization some comrades have had a false impression and held that the policy of conducting reforms and opening to the outside world will be "pulled" out. They have also adopted a hesitant, wait-and-see attitude toward their practical work. Left unchecked, such a situation will undoubtedly affect the normal progress in the program of building socialist modernization. Therefore, it is imperative for us to totally deepen our understanding on the dialectically unified relationship between the spirit of upholding the four cardinal principles and the policy of conducting reforms and opening to the outside world and to fully discern that transformation indicates a great tendency faced by our country and represents an irreversible historical trend.

The Central leading comrades have repeatedly stressed that the party's line set forth since the 3d Plenary Session of the 11th CPC Central Committee consists of the following two basic points: To uphold the four cardinal principles and to uphold the policy of conducting reforms and opening up to the outside world. These two points complement each other and are interdependent and indispensable. To date, we have mentioned more about the harm in failing to uphold the four cardinal principles and have gradually unified our understanding on the spirit. However, we have not deeply understood the problem in which a failure to uphold the policy of conducting reforms and opening to the outside world will also hinder the spirit of upholding the four cardinal principles and have not totally unified our thinking in this regard. The core of the four cardinal principles is to uphold the party's leadership and the socialist road. Conducting reforms and opening to the outside world are the general guidelines and policy formulated by the party for building socialism. Negating the party's general guideline and policy is equal to a failure in upholding the party's leadership. WE are still in the primary stages of socialism and therefore should uphold the socialist road and further build socialism, which is more superior than capitalism. First, we must rid ourselves of socialism in its poor stage. Only by upholding the principle of conducting reforms and opening to the

outside world can we truly bring socialist superiority into play and have the trend of bourgeois liberalism with regard to suspecting or negating the socialist road lose its markets.

The practice conducted during the 8 years since the 3d Plenary Session of the 11th CPC Central Committee has undoubtedly shown that our country will have no future without conducting reforms and opening to the outside world and will also have no future without continuously deepening the drive to conduct reforms, further opening to the outside world, and making progress. During the primary stages of the transformation trend, the difficulties we faced and obstacles we encountered were greater than they are now. After the 8-year effort, we have found that the drive to conduct reforms is like a miracle arrow which can bring about a tremendous change wherever it goes. Rural problems that existed over the past 30 years, such as food, spendings, and surplus labor forces, have been rapidly and better dealt with through enforcing the household responsibility systems and developing the commodity economy, or are being better dealt with. We have also scored marked achievements in conducting reforms in urban economic systems, although we started the drive to conduct reforms only recently. A series of insolvable problems committed by the enterprises, such as paying no attention to markets and economic results and eating from the same big pot, have been fundamentally improved by enforcing the factory director responsibility system and by other various economic responsibility systems. Over the past 8 years, productive forces have developed rapidly, the standard of the people's livelihood has steadily improved, and the "drive" to conduct reforms has emotionally become the cordial work of hundreds of millions of people. The policy of conducting reforms and opening to the outside world has been supported by the vast number of people. Problems and faults cropping up in the drive to conduct depth and in an overall manner. It is wrong and unfounded for us to exaggerate the problems of progress cropping up in the failure in adopting coordinated measures in conducting reforms and to force the social defects including malpractices which are not directly related to the policy of conducting reforms and opening up to the outside world on the enforcement of this policy.

All in all, we should carry forward the drive in line with the "original plan." Comrades who have had muddled ideas should soberly discern the excellent situation in which the drive to conduct reforms is continuously being deepened and progressive. They should consciously join the drive and push the drive forward. Millions of reformers should clear their mind of doubts and bravely and continuously plunge into the great trend of conducting reforms and opening up to the outside world. "While playing on the wave, surf-riders are able to prevent the red flags they are holding from getting wet." This is the call of our age to the reformers.

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CSO: 4005/786

## FUJIAN COMMISSION STRESSES INNER PARTY SUPERVISION

OW081434 Fuzhou Fujian Provincial Service in Mandarin 1000 GMT 6 Jun 87

[Text] The provincial Discipline Inspection Commission recently distributed throughout the province a circular of the Central Discipline Inspection commission on strengthening inner-party supervision in Cangzhou Prefectural COC Committee. It called on the party organizations in various localities to support their discipline inspection commission in carrying out their functions and duties and consciously accept the supervision within the party. In its directive on the circular of the Central Discipline Inspection Commission, the provincial discipline inspection commission pointed out: As far as Fujian is concerned, the discipline inspection commissions in the province are still exploring ways to maintain supervision over the party committees at the same levels and their members. The practice of the Cangzhou Prefectural CPC Committee in this respect has provided us with a good example.

The directive emphatically pointed out: Whether or not a discipline inspection commission can effectively maintain supervision over the party committee at the corresponding level and its members depends on the party committee itself. The party committees at all levels must follow the example set by the Cangzhou Prefectural CPC Committee in placing its task to enforce inner-party supervision on its daily official business agenda in an effort to create favorable conditions for its own discipline inspection commission to carry out its functions and duties well. Under the leadership and with the support of the party committee at the same level, various discipline inspection commissions must take the initiative to study and formulate, according to the actual situation in one's own locality, a complete system to maintain supervision within the party, implement this system with the approval of the party committee, and gradually improve the system in the course of implementing it.

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## SHANDONG COMMENTATOR PROMOTES FOUR CARDINAL PRINCIPLES

SK061104 Jinan DAZHONG RIBAO in Chinese 20 May 87 p 1

[Commentator's article: "The Endeavor To Uphold the Four Cardinal Principles Should Permeate the Procedure of Reform and Opening Up"]

[Excerpts] Upholding the four cardinal principles and adhering to the work of carrying out reform and opening up to the outside world, which have been regarded as two cornerstones of the party line since the 3d Plenary Session of the 11th Party Central Committee, are consistent with each other. They are the two sides of one thing, as well as the two contents of one line. To implement this line in a still more accurate and comprehensive manner, we must profoundly understand the relationship of dialectical unity between these two cornerstones, and put in much work to combine these two cornerstones and make them promote each other. At the same time, we should strive to avoid such a situation as "concentrating on one cornerstone only," and permeate the reform and opening up with an endeavor to uphold the four cardinal principles.

Nowadays, while approaching an issue, some people are prone to proceed from outmoded and antiquated concepts, rather than from reality. Whenever it comes to stressing political principle and orientation, these people are apt to mistake it as launching a political movement and maintain it will affect economic construction. At the same time, these people think that if reform, opening up, and economic construction are stressed, the political principle and orientation and the four cardinal principles should not be upheld. Such a concept as pitting the one against the other is unreasonable. It is true that during the process of our socialist revolution, there was a period of only emphasizing politics to the neglect of economic construction, and we actually suffered losses from it. But, has already become a historical event, and our party has already summed up experiences and drawn lessons from it. Such a mistake can be effectively avoided and overcome through the party's endeavor to regard the upholding of the four cardinal principles and the adherence to reform and opening up as a united entirety, in which both can be implemented without coming into conflict, and then guide the work and construction based on this entirety. Meanwhile, the party Central Committee has made definite stipulations on how to deepen the struggle against bourgeois liberalization. By deepening the struggle, we do not mean launching movement, nor do we mean intensifying the political atmosphere by forcing everyone to pass the test. By deepening the struggle, we mean that efforts should be made to enable the overwhelming majority to deeply understand what the four cardinal principles are, why the four cardinal principles must be upheld, and how we should uphold

the four cardinal principles. To solve this question, we must depend on success in positive education, instead of depending on political movement. Success in positive education will all the more effectively ensure that the endeavor to uphold the four cardinal principles and oppose bourgeois liberalization will certainly not affect reform, opening up, and economic construction. In fact, if we refrain from stressing the political principle and orientation, how can we promote our economic construction? If a socialist country effects increases only in output value, profit, and economic targets, but not in the general socialist awareness, how can it be regarded as a highly developed socialist country?

Therefore, we should find out many ways and mobilize all forces to achieve success in positive education on upholding the four cardinal principles and opposing bourgeois liberalization so that the vast number of the masses will firmly and unswervingly uphold and safeguard the four cardinal principles and truly understand the fact that the four cardinal principles are necessary to the modernization drive, just like vegetables and clothes to the people. With this, the vast number of the masses will be conscientious in permeating reform and opening up with the upholding of the four cardinal principles and the reform and opening up will be carried out in an even better manner.

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## SHANGHAI MAYOR JIANG ZEMIN SPEAKS AT FOREIGN LANGUAGE SCHOOL

OW081202 Shanghai JIEFANG RIBAO in Chinese 3 Jun 87 p 1

[Dispatch by reporter Wu Debao and correspondent Wang Xinming]

[Excerpts] Jiang Zemin, deputy secretary of the Shanghai Municipal CPC Committee and mayor of the municipality, upon invitation, went to the Shanghai Institute of Foreign Languages yesterday to deliver a speech, which was warmly welcomed by more than 300 graduating students, teachers, and cadres.

In his speech, he briefed the students on Shanghai's current situation and future development program. He briefly described the general situation in Shanghai by citing some principle figures. In particular, he gave them a "real account of the facts" about the questions of transportation, housing environment pollution, technological transformation, and vegetable supply in Shanghai's future development program and the progress of some key construction projects in the Seventh 5-Year Plan, such as the new railway station, airport, and water-transport passenger station. "Despite the difficulties involved, our future is bright," said Jiang Zemin.

He said: We must uphold the four cardinal principles and persist in conducting reforms, opening to the outside world, and invigorating the economy. The more we're opening ourselves to the outside world, the greater the demand for the number and quality of foreign affairs workers. He asked the students of this institute to earnestly study the party's foreign policy, strictly abide by discipline, guard against corrosion by the decadent Western capitalist lifestyle, and foster a high political sensibility. He also urged them to make ceaseless efforts to raise their professional ability, master an even wider range of knowledge, and form a habit of enriching their knowledge by learning everything "from astronomy to geography" so as to lay a greater role at their future work posts.

Jiang Zemin's vivid and humorous speech which lasted 2 hours was now and then punctuated by applause.

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